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ABSTRACT

Student loan counseling and debt management are discussed in three papers, six commentaries, and a panel discussion from a College Scholarship Service colloquium. In "Fulfilling the Institution's Responsibilities to Student Borrowers," Theodore J. Marchese discusses a shift in student financial aid marked by the ascendency of loans instead of loans and work study, and the consequences of this shift. Commentaries on the article are offered by Michael H. Halloran and John B. Lee. The second paper by Dennis J. Martin, "Long-Term Implications of Student Borrowing," reviews the findings of a recent study conducted by the National Association of Student Financial Aid Administrators as well as other research on student loan programs and borrower traits. Commentaries by Jerry S. Davis and Kathleen W. Little are included. In "Determining Student Capacity to Borrow," Dwight H. Horch identifies goals and activities of effective debt counseling, with an example for a private college senior. Debt burden and undergraduate overborrowing are also addressed. Commentaries on the paper are provided by Hedy Chang and Cheryl Wilkes. The title and participants of the panel presentation are: "Mechanisms That Work: State and Institutional Models for Student Loan Counseling" (Donald McM. Routh, Paul G. Barberini, Roberta S. Popik, and Sylvia Simmons). (SW)

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COLLEGE SCHOLARSHIP SERVICE

COLLOQUIUM

on Student Loan Counseling & Debt Management

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Foreword

The subject of student loan counseling and educational debt management is clearly on the minds of all those concerned with student aid delivery. Loan dollars have become the primary means of financing undergraduate and graduate education, with loans making up more than 50 percent of every student aid dollar in the 1985-86 fiscal year. For some (many? -- it is impossible to tell) institutions income from student borrowing now makes up a very sizeable percentage of institutional revenues.

Nearly every meeting of student aid professionals, lenders, and state program administrators in 1985 included a presentation on the subject of debt management. But most of those presentations were concluded in 60 to 90 minutes, with no opportunity provided for thoughtful discussion and deliberation of the implications of the rising levels of student indebtedness.

The papers which follow represent the formal discussions at a two day Colloquium sponsored by the College Scholarship Service which focused exclusively on these issues.

While the papers fairly represent the formal part of the program, they fail to reflect fully the richness and intensity of the discussions which followed. Each of the participants, listed in Appendix A, brought to the Colloquium his or her own perspective on the problem. Each informed the opinions of the others through expressions of concern and interest. At the end, the participants did not agree on what the real problem was -- or even that there really was a problem -- nor did they agree on solutions. Rather, each went away committed to working to improve the process of delivering loan money to students so that all parties to the process can obtain their objectives in the most equitable and informed manner.

The papers are presented in this publication to expand the circle of discussion about the issues, in the hope of further clarifying the extent of the problems and the appropriate solutions for all to strive to implement. Your comments and reactions will be welcomed.

William D. Van Dusen
Colloquium Director

January 15, 1986

Fulfilling the Institution's Responsibilities to Student Borrowers

by

Theodore J. Marchese
Vice President
American Association for Higher Education

My thesis is this: that in the past five years there has been a dramatic, far-reaching shift in the character of financial aid we provide students; that that change has been marked by the rapid ascendency of loans (instead of grants or work) as the prime vehicle for student finance; and that the fact of that change has not fully caught up with us as educators, both within the higher education community and within that part of it we call the aid community.

My remarks, and this Colloquium, are about this shift to loans; my argument is that the shift will be long-term and increasingly significant in its consequences. As educators, our task at this Colloquium is to confront those consequences.

My remarks unfold in two sections. First, I will outline eight propositions, combining fact with judgment, about the shifting character of student aid in the Eighties. Second, in four extended sections, corresponding to the agendas of this conference, I will attempt to discuss consequences, things that we as educators must rethink -- and do -- to preserve in student finance values that are important to us.

Let me state two perspectives at the start. The first is that my remarks are aimed at us, as educators, and not at authorities in Washington or in statehouses. Even as we meet, a year-long ritual of reauthorization of the Higher Education Act of 1965 unfolds in Washington, and some of the programs we here discuss may be the subject of legislative change. My observation, though, is that there won t be that much change in federally supported student aid this time around, and that, minor changes notwithstanding, the fact of a shift to loans will persist and needs to be confronted, within the community, as a fait accompli, with consequences that are ours to deal with.

A second perspective: I think that loans, fairly applied and assumed, are a good idea. Students should contribute to their own education; borrowing for that purpose is a best investment in self; and the variety of loan programs we now have on line by and large serves student, family, college, and public purposes well. In an ideal world, no student would leave any program of studies with an indebtedness; in today's world, reasonable indebtedness is a price worth paying for access to and choice within a full range

of postsecondary opportunity. So: in what follows I may complain, worry, or sound an alarm; but the basis is always educational effect and equity for students, not the fact of loans per se.

Let me proceed, now, with my eight propositions.

1. There has been an enormous, recent growth in loans as a vehicle for student finance. This is the most straightforward of my propositions, the one from which all others follow, and may be adduced with a handful of statistics, the most telling of which is this: ten years ago, in 1975-76, loans were 16.9% of all aid awarded to America's college students (1); in 1984-85, loans rose to 51.7% of all aid awarded (2). As recently as 1977-78, the dollar value of Guaranteed Student Loans (GSLs) taken by students stood at $1.7 billion (3); in 1984-85, GSL borrowing stood at $8.4 billion (4)....a five-fold increase. Over the last eight years, federal GSL costs have risen seven-fold, from $480 million (5) to $3.3 billion (6). Even adjusted for inflation, GSL costs have quadrupled over these years, while the combined real value of the remaining title IV programs has dropped 10% (7). Within that title, GSL now consumes 43% of federal student-aid appropriations, vs. 13% in 1978 (8). Six of every ten dollars prompted today by title IV land in student hands in the form of a loan (9).

At this point, you may be on the verge of "statistic overload." I can summarize up to this point by saying, "believe me, there has been a shift." But let me add two important facts about that shift before ending the point.

The first is that, as aid administrators know, GSL loan volume kicked up sharply in 1979-80, to $3.9 billion, (as the Middle Income Student Assistance Act of 1978 took effect), surged again in 1981-82 to $7.2 billion (as other forms of aid suffered Reaganomic cut-backs), then sagged back in 1982- 83, to $6.6 billion (as a result of eligibility restrictions imposed in 1981) (10). Since then, though, there has been still another surge in GSL loan volume, a 28% increase in student borrowing between 1982-83 and 1984-85 (11).

I note this recent history for two reasons. The shift to loans is not something that happened all at once some years ago; it is a continuing trend with strong forward momentum even today. And, relevant to our discussion later about current levels of student indebtedness, we shall keep in mind that the recent, continuing surge in loan reliance has pushed those levels up and up, so that earlier studies of "how much do graduates owe?" are out of date.

Let me add a second perspective about this shift to loans. That is, the real story is not so much that certain students are borrowing more and more; it is that more and more students, from

broad income levels and all types of institutions, have had to take a loan to finance college costs. The size of loans taken has indeed risen, from an average of $1,713 per student in 1977-78 to $2,525 in 1983-84 (GSL/PLUS combined)(12); that is a 48% increase. But it is the number of GSL/PLUS borrowers that has jumped most, by 3 1/2 times, from a million students to 3.6 million (13). It used to be that borrowing was done chiefly by middle-income students in higher-cost baccalaureate institutions; now we find high percentages, too, of low-income borrowers (14) and of borrowers in the public sector (15). Within California's community colleges, for example, GSL loan volume has increased eleven-fold in recent years, with the average value of those loans ($2,000) (16) now just a shade under what they are in four-year private colleges ($2,256) (17).

To conclude this first proposition: loan volume is surging and loans are now firmly in place as a prime vehicle for student finance. Next, we ask, how did that happen?

2. The shift to loans did not occur by design, but was far from accidental and is here to stay. As recently as 1980, in the last reauthorization of the Higher Education Act, the Congress of the United States, worried even then about student loan burdens, set forth as a goal that 75% of all student expenses would be met through parental contribution plus grants. That was the intent -- and at that time those two sources then paid about 60% of all student charges (18).

It did not, of course, work out that way. The value of grant aid dropped from 40% of expenses to 25% in the following three years (as recorded by NIICU), leaving parents and student self-help with a widening gap to fill. That gap, as you can guess by now, was met by borrowing (19).

How did this situation come to pass? If it was not the intent, why did it happen? The answer, as it so often is with complicated public programs, is complicated. I want to list here a number of contributing factors, quickly and not particularly in order, so that we can talk about the "how" and "why."

As deficits have soared, federal spending for all social services has been hard-pinched, student aid included, and direct-funded grant and work aid especially (20).

$5 billion in federal veterans and Social Security funding for students -- grant monies -- has been eliminated over the past ten years, raising aggregate student need and demand on title IV programs (21).

College costs have soared 56% this decade, while family income rose 26% (22), increasing aggregate "need" for title IV monies while deflating its relative ability to meet costs.

Within Title IV, because GSLs are "off budget," "cheaper to fund," and are driven by student need and demand, they have been the vehicle that could grow, that allowed total dollars in the field to stay up without busting the budget (23).

A variety of fixes to the GSL program in the late 1970s made the nation's credit markets fully accessible to students and families (24); new incentives drew in borrowers and lenders (25); and loans turned a corner of acceptance and popularity to become an expectancy in student finance (26).

There are other trends that have enhanced reliance on loans: the reduced potential of work to meet college costs (27), the channeling of Pell monies into the proprietary sector and away from traditional collegiate institutions (28), the active role of banks in encouraging students to borrow (29), and so on.

However high we heap the causes, though, the picture that emerges -- "nobody planned it this way" -- and the result -- higher and higher levels of student borrowing -- remain the same.

When I look more closely at these causes I note that -- the one-time elimination of V.A. and Social Security benefits excepted -- all of them remain in place, still at work; and I conclude that they may lead us to even higher levels of loan indebtedness in the future. Indeed, I took our earlier 1984-85 figures -- showing loans as 51.7% of all aid and 39% of all Title IV expenditures -- and plugged in new figures from the FY 1986 appropriations bill approved last week by Congress. My new estimates: that in the year ahead loans will be 55% of all aid, and 43% of all title IV expenditures.

3. The Guaranteed Student Loan Program is a well-greased machine with an important logic of its own. It is one thing to have a set of reasons for a horse to run fast; it is quite another to have a horse that can do it. One of the things that impresses me in returning to the student-aid arena is how many of the earlier problems that held back GSLs in the Seventies have been resolved, and how ready that apparatus (and its loan-making offshoots) is to push forward.

On its own terms, the GSL program seems to be doing fine. Borrowing is up -- way up. Surprisingly, since these are unsecured loans to credit-risky young people, the default rate is low, and inching downward (30). Private lenders, who get 3 1/2% above the ninety-day T-bill rate for no-risk paper, have flocked to the program; almost 13,000 banks participate now, some aggressively so in the name of "customer development" (31). Guarantee agencies exist now in all fifty states. Comprehensive secondary-market services are provided by the Student Loan Marketing Association; "Sallie Mae's" balance sheet looks great.

Student loans, in part because they keep total dollars in the field up without busting the budget, enjoy strong Congressional support. Policy analysts find, especially since the eligibility restrictions imposed in 1981 and the new flood of loans to low-income students, that the GSL program is now reasonably well "targeted" at populations Congress wishes to aid (32). To the analysts, loans seem to pass tests (and this is tricky to prove) of keeping up desired levels of student access, choice, and persistence (33). Institutions, too, support the GSL program: it pays the tuition -- 23% of student charges for dependent undergraduates in public and private colleges alike (34) -- and bolsters enrollments. Higher loan levels, for all students at all levels in all sectors, were a unanimous recommendation of the institutionally based higher-education lobbies this summer during reauthorization hearings (35) -- and, last week, the House Education and Labor Committee indeed voted to raise most of the existing loan limits (36).

Two other perspectives on support for loans are these. Parents seem now to embrace the idea; in a national study of parents of high-ability students (SAT math and verbal scores of 500), done a year ago, Jan Krukowski Associates found that over 80% of the parents said they or their children would be willing to borrow to pay for college, with a median debt-willingness of $3,100 a year ($12,400 over four years) (37). And a Roper Poll, commissioned by NIICU and done in August, 1984, showed that "low-interest loans that have to be paid back over time" were by far the most favored form of federal student aid among the general public -- 48% approved such loans, vs. 29% approval of work programs, and just 18% approval of outright grants (38).

To summarize this third proposition: student loans, and especially the GSL program, have developed very strong constituencies. Proposals to restructure the delivery of student loans -- rational, well argued proposals, such as to create a federal student loan bank (39) or to reemphasize campus-based NDSLs (40) -- do not have a chance. The beast we have -- a proverbial 900-pound gorilla loose in the halls of academe -- is the beast we will live with.

This is the point at which to note that the GSL is not the whole of the story. At the federal level, the NDSL is still around, generating some $585 million in loans to students, 660,000 of them in 1984-85, with an average loan value of $885 (41). Other federal loan programs, chiefly in the health professions, generated another $279 million in loans last year (yes, they are up, too, from just $88 million in 1981-82). Overall, the total dollar value of federally prompted loans now stands at $9.3.billion, with 91% of that sum represented by GSLs (42). Beyond federal programs, there now exist state and institutionally supported lending authorities and programs, cumulative figures on

which are hard to come by. And, of course, students also borrow from their families, and families from banks, to meet college costs. Overall, the aggregate level of student borrowing today probably approaches about $10 billion a year.

Given all this program growth, the next question becomes, how much are individual students borrowing?

4. Student indebtedness has grown apace. The first point to make is that there are no good, current, overall data available on how much individual students coming out of college today owe on their loans. What levels of indebtedness are we putting on students, right now, as a condition for their postsecondary participation? It says a lot -- not just about the system's commitment to research, but about its commitment to student welfare -- that we do not know the answer.

The best we can do is read tea leaves and make inferences. We know, for example, that the average size of an individual student's yearly loan has been on the rise, that, for example, the average GSL in private colleges rose between 1979 and 1983 from $1,466 a year to $2,256 (43); more recent NCHELP data confirm a continuing surge in cumulative loan indebtedness between 1982-83 and 1984-85 (44). We also know that the proportion of all students borrowing in all sectors has been on the rise, and we know their average yearly loans, that, for example, among low-income students, 61% in private colleges and 27% in public institutions are borrowing, with respective yearly loans of $2,250 and $1,850 (45), and that among middle-income students three-fourths in private colleges have a GSL ($2,300 a year), as do 43% in public colleges ($2,100 a year) (46). A California study of full-time college seniors showed that 59% had accumulated debt (67% in private institutions, 51% in publics) (47).

What these undergraduate data do not show is exactly how many total students that translates into, and what cumulative two- and four-year indebtedness is being imposed upon individual students. Cumulative borrowing -- total debt from all sources -- is the figure that matters, and GSL data do not tell the whole story. In the NIICU studies, for example, 24.6% of GSL borrowers also had an NDSL (and 63% of NDSL holders also had a GSL) (48). Boyd and Martin's new study of students in repayment shows that one-third have loans on top of their GSL, adding on the average about one-fourth to those students' total indebtedness (49).

When we try to get a handle on what this adds up to, we find ourselves on a slippery slope. The data are spotty, the trendline is up, but the facts we have tend to be for earlier cohorts of students, to reflect conditions prior to the most recent run-up in

borrowing. The Boyd-Martin study of loan repayers -- their average age is 28, so these would tend to be graduates from three and more years ago -- showed mean indebtedness of $6,488 (50). The California study I mentioned a moment ago (of 1982-83 seniors) showed mean dependent-student debt of $6,800 at private colleges, $4,000 at publics (51). New York State data for 1983-84 show, across all institutions, an average senior indebtedness of $7,132; even then, three-eighths of all seniors had debts in the $7,500 to $10,000 range (52).

All of these figures, I want to stress, are for earlier cohorts of students; they do not, I believe, reflect contemporary realities. Students who came through the system in the late Seventies and early Eighties, when average yearly borrowing was lower, of course graduated owing less than their counterparts of today. By extrapolation -- by taking <u>today's</u> average annual loans and multiplying by four, or by taking cumulative debt totals of three and four years ago and adjusting them upward at a rate equal to the increases in college costs, or by listening to the testimony of financial-aid officers from representative campuses -- I have the sense that very large numbers of low- and middle-income students graduating now from public universites will be carrying indebtednesses of $7,000-$9,000, and from private institutions indebtednesses of $8,000 to $11,000. For purposes of next discussion, I am going to call these two estimates $8,000 (average current debt, publics) and $10,000 (private) -- figures, again, that financial aid officers tell me <u>do</u> reflect contemporary reality (53).

If you will allow one more bit of extrapolation: my estimate, based on the percentage of students receiving loans in the private and public sectors, and the percentage each sector contributes to the total numbers of baccalaureates a year, is that the <u>number</u> of students we are talking about -- with indebtedness within $1,000 of the $8,000 and $10,000 levels just posited -- is now in the order of 200,000 to 300,000 graduates a year.

Aid administrators also tell me that the full effect of the recent run-up in loan reliance will most clearly and fully be seen in the senior class graduating this June. I await those figures -- if not what they will tell us.

5. <u>Student over-indebtedness now becomes a factor to worry about</u>. How much debt can today's graduates handle? Within the incomes that our graduates can expect these days, can the monthly payments on an $8,000 or $10,000 loan be met, comfortably or otherwise?

It would seem to me that these questions are the $64 ones, that the answers would have a lot to say about the appropriate degree of loan reliance we should entertain in public policy, and about what debt levels aid administrators might countenance as fair to students. To my surprise, I find virtually nothing in the literature that is probative on this issue.

One very relevant stream of work has been that of analysts who have attempted to calculate what for students might constitute manageable debt levels. Most of these studies (and there are not many) attempt to determine debt levels in terms of the annual payment a student could make as a percent of their income. Daniere's study in 1969 suggested that student borrowers could repay 6% of their pre-tax income, or 7.5% of income after taxes (54). Horch advanced that work by differentiating between students entering high-, middle-, and low-income occupations (55), then further by translating the proportions of after-tax income each group could afford (5.75% for those on a BLS lower-budget standard, 7.2% for intermediate incomes, and 9% for higher incomes) into annual loans that could be handled by 1984 graduates entering different occupational fields (56). Basically, the model Horch develops provides campus aid administrators with most of what they need to know to set reasonable limits on their students' borrowing. Popik's (57) work in translating Horch's concepts into a computer model and applying them at Northwestern is much admired, though I detect something less than a rush elsewhere to implement the Horch formulations.

As admirable as I find this work, for our purposes it leaves a major question unanswered: that is, how do <u>recommended</u> levels of indebtedness compare with the <u>actual</u> levels of indebtedness now being incurred by students? Combing the literature, I find just two (!) relevant studies -- one out of date, the other just two months old but deficient. The out-of-date study looked at 1977 college graduates, at their median borrowing and earnings, and concluded that most students then would not have difficulty in paying their loans. Pockets of burden, though, were found among graduates working less than full time, as health technicians, and married women working full time (58).

Just two months ago Hansen and Rhodes (59) attempted an updated study along these lines, but it is a quirky one. What they did on the "manageable debt" side was take Horch's mainline work (which looks to the "other consumption" part of BLS standard budgets), laid alongside it a far-fetched suggestion of Hartman made fourteen years ago (which basically said, let college graduates live on what high school graduates make and let the difference be for loan repayment), and then, without any particular rationale, opted to "compromise" or average the two proposals, leading to the statement that an excessive debt level for an average graduate would be $14,000. Hansen and Rhodes then assume that the average starting salary of graduates could be $20,000 a year, lay that salary against actual debt levels from 1982-83 (the California SEARS study mentioned earlier), calculate on that basis that only about 3% of students have accumulated unmanageable debt, and therefore conclude that there is "little cause for the mounting concern" about excessive debt levels (60).

Permit me to replay this analysis by using what I regard as more realistic numbers. First, a more realistic starting income for today's college graduates is about $18,000 (61), which produces an after-tax income of roughly $13,600. Let us return to Horch's solid work but be tougher than him in our demand for repayment and apply his intermediate-standard repayment percentage (which he thinks is fair for a $21,290 income) of 7.2%. The result: today's college graduate should be able to come up with just under $1,000 ($979) for loan repayment -- which, under one of the common look-up tables (62), would permit a student to handle a GSL of about $6,600.

When I lay that $6,600 figure against the $8,000 and $10,000 debt levels common among today's graduates, I do not reach the conclusion of Hansen and Rhodes. I find a lot of cause for concern. Indeed, even if you varied any one of my assumptions -- raised the income expectancy to $22,000, for example, or the percent of after-tax income available for repayment up from 7.2% to 12% -- the manageable debt still hovers in the $8,000-$9,000 range, leaving nearly half of today's borrowers in a zone of apparent real burden.

At this point, I suppose I should rush in with the qualifications, pointing out that students could more readily handle $8,000-$10,000 debts if we allowed more flexible or graduated repayment; that they can "manage" the size of debt they incur and their ability to repay by their choice of what type of college to enroll in, what degree to earn, and what employment to take; that most incomes do go up over time, while GSL monthly payments do not, so that we are talking, primarily, about an early-years-of-loan problem; and so on. But my rough analysis is not an attempt to "prove" that current student-loan indebtedness is unmanageable; I do it to suggest that our current practices are heading significant numbers of our graduates into a personal-budget hole, and that serious analysis -- using realistic earnings, debt, and repayment data -- is now an urgent necessity.

I should mention, in concluding this point, that there already exists significant, scattered evidence of over-indebtedness. Boyd and Martin's new study of earlier graduates in repayment found that when payments rose above $100 a month and 8.8% of after-tax income (as they would on a GSL indebtedness of about $8,200), a real burden was reported that significantly affected standards of living and life choices; 10% of that earlier generation of borrowers was at that "burden" level (63). A California study of last March identified categories of borrowers unable to repay their loans comfortably under current repayment provisions (64). Mitchem provides eloquent if anecdotal evidence about low-income students (who disproportionately as graduates wind up in low-income jobs) unable to meet payments on their student loans (65). At Yale, indebtedness totals in the undergraduate college

and in thirteen of fourteen graduate/professional programs exceed the theoretical limits described by Horch, in several cases by quite a margin (66). Horch himself, in what only can be described as an exercise in whistling in the wind, recommended last year to colleges that they keep loan limits for this fall's entering class (the class of 1989) to $6,500 (his "all fields" category, an indebtedness that might vary up or down by student major) (67).

None of these studies, anecdotes, or analyses tell us very fully about the contemporaneous reality of loan indebtedness and burden among today's graduates. As I have argued, I think there is far more burden being imposed on far more students than we realize, and it is time to know much more about that phenomenon -- and to look at its consequences.

6. The impacts of student indebtedness are already making themselves felt on student choice. What choices do students make as they progress through the school and college years and into early adulthood? I think they would be these, in chronological order, as they might be affected by the fact of student loans:

- o the decision to pursue a postsecondary education
- o a choice of what type of institution to enroll in
- o once in college, a choice related to persistence in college and the choice of a major
- o upon graduation, a choice of whether to enter the work force or to pursue graduate or professional studies
- o at the conclusion of studies, a choice of specialty and employer.

The literature on the impacts of student indebtedness on student choice is, as you would expect, thin. I have looked at what literature I could find, and also talked with a couple of dozen people in the past two months in a position to view these behaviors. Putting together what I have learned, a good, running hypothesis is the following: that the influence of potential and real indebtedness increases as you go up the decision chain I have just laid out, that it is quite weak an influence on early-year decisions and a significant one in later decisions.

Starting with pre-college effects, evidence about the influence of financial aid, whether taken as an entity or broken into components of grant, work, and loan, on student "access and choice" decisions has always been hard to come by: it is a tough matter for researchers to untangle (68); the evidence tends to be, in Astin's word, "ambiguous" (69). Research aside, admissions and aid officers tell me that 18 year-old entering students have little concept about complex matters of cumulative indebtedness,

income projections, and repayment schedules -- nor, let it be said, are these students usually provided with good information about such matters -- so that what they do not know hardly influences their decision to enroll.

I caution that the new facts about indebtedness and its impact on student lives are just that -- new -- and that they have yet to sink in among wider publics. But consider this straw in the wind: Krukowski's recent work with high-ability, college-bound students has begun to show that they and their parents increasingly shop for colleges on economic grounds, that parents increasingly advise their student-children to minimize the cost and debt of undergraduate education (so that professional school can remain an option), and that cost/debt-load/job-market fears pressure parents and students to avoid schools, courses, and majors that seem to have no practical pay-off (70).

As for the impact on in-school behaviors, the evidence is again thin. Everyone has a story about students who left school because of apprehensions about their growing debt, and I have heard of students who stayed or came back to college to postpone repayment. As to choice of majors, more stories. Upon graduation, more stories still about delayed or cancelled plans to attend graduate school, or to not take a job as a teacher, or to work for IBM instead of a community agency. And, in the past year, just as Krukowski reports at the freshman level, Popik reports that students considering entrance to Northwestern's professional schools have begun asking hard, new questions about their ability to repay cumulative undergraduate plus professional-school loans (71). Within professional education, there are wide reports that students are now more inclined to choose specialties -- surgery instead of family practice, for example -- that have the income potential to handle large loans (72). And, after all schooling is done, as the Boyd-Martin study documents, large loans are indeed making a difference in young adult lives (73).

Beyond what available studies and testimony will tell us, there is a common sense to my hypothesis that the further along a student gets in his or her indebtedness the more a factor it will become in decision-making, and a reasonableness to student decisions to pursue choices of school, major, and career that keep them out of hock. I note, too -- though there are many other reasons for each of these things -- that the broad drift of student choice in recent years coincides in direction and timing with the incentives loan indebtedness gives rise to. That is, today we see more students, especially minorities, migrating to lower-cost and two-year institutions; more students opting for professional and preprofessional studies instead of humanities, social science, and education majors; and fewer students aiming for graduate work in the arts and sciences.

Again, I repeat, there are lots of reasons for each of these developments. But are they entirely unrelated to the new facts of indebtedness? I do not think so. I think that we, as educators, should want to track any such influences very carefully. Any systematic bias in college finance against full minority participation, against liberal studies, or against public-service careers warrants our and this society's deepest concern.

7. Student default on loans is not a problem -- or is it? This past year or two, the debate about loan defaults has seemed to intensify. Listen to Secretary Bennett and people in the Administration and you will think it is a terrible problem. Listen to representatives of the aid community and you will think it is a minor problem coming increasingly under control.

My sense is that both parties are right but may be missing the real story.

To rehearse the debate briefly: what the Administration is worried about is that GSL defaults are now approaching $1 billion a year, with projections that they will hit $1.8 billion a year by the end of the decade (74). As they say in Washington, anything over a billion starts to get people's attention. How can you blame officials who note that default costs are running 15-20% of all Title IV costs and that the system's incentives for students to pay and lenders to collect are a good deal less than they could be? On the other hand, as aid administrators and analysts have been quick to point out, the net default rate on these loans is under 5%, which is really quite good; the reason default payments are up is simply that there are more and more loans out there, $35-40 billion worth in repayment already (75). Whatever the case, there are a number of structural and administrative changes that could bring default rates down even further (76); I think it is important to do so to maintain the public integrity of the program.

But my immediate concern with this situation is not just with the federal government's default payments; it is with the defaulters, 500,000 former students of ours this year alone, 1,500,000 young Americans in default and on a roster in possession of the Department of Education. Who are these people? What was their experience with us? Why are they now in default? What does their story have to tell us?

For these questions we do have some answers, answers that represent the dark underside of the new reliance on loans. From among available studies, I will cite a recent one conducted by the Virginia Education Loan Authority (77), which shows that 64% of defaulters come from very-low-income families ($10,000 a year or less), over half (54%) had a year or less in college, with nearly half (49%) of these people enrollees in community colleges or proprietary schools. The average loan indebtedness of defaulters is $2,000 (78) by one account, about $2,650 by another (79).

Why are these students in default? Davis, summarizing a number of studies, says that "the fundamental reason the vast majority...default...is that they do not have the financial means to meet their payments" (80). Eighteen-year-olds, often minority youth, realize hardly any gain in earning capacity from a year or less in an open-door college; the kind of jobs they may take, if they get a job, are likely to be at the "7-11" store and pay $4.00 an hour, a sum that by my calculation leaves them considerably short, under the Horch formulas, of ability to meet even the minimum GSL monthly payment ($33 "capacity" vs. $50 payment).

The story of these people, then, is that of a venture into postsecondary education that in many cases left them worse off economically. And when we talk of students with high aid but low attainment rates, we are talking in many cases of minority students. As Arnold Mitchem, executive director of the National Council of Educational Opportunity Associations, testified this summer,

> "....talk with any aid administrator or TRIO director, they will tell you that for every student who significantly increases their earning capacity by attendance in a postsecondary program without receipt of a baccalaureate, there are more that do not... This results....in a fairly large segment of our lowest-income population who feel they have been cheated once more. That every time they try to make life better for themselves and their families, they end in a more difficult situation than they started (81)."

I think the point is clear, that it should concern us greatly as educators and as a society, and that there are things in our control that we can do about it. But I also want to relate this point to ones I made earlier. That is, when we talk about student indebtedness and the burdens imposed by our new reliance on loans, we tend to think only of our <u>graduates</u> and their situations. But we need to think at least as hard about the effects of loans on the system's drop-outs and push-outs at the bottom. In both cases -- graduates and those ushered early out the revolving door -- we are talking about real burden and life-impact on groups of 200,000-300,000 people a year, with, I am sure, the worse effects of indebtedness felt among the "ushered out" group. Think about it....combined, we are talking about 400,000-600,000 of our former students a year.

8. <u>A loan is not the same as a grant</u>. For this proposition, which would <u>seem</u> to have a self-evident character, we leave the realm of statistics to enter one that should be more comfortable to us as educators, that of social philosophy.

And my basic premise is that whether and how you pay for a thing affects how you will think about it. Logically, the new way we have devised for meeting college costs will, over time and perhaps already, change the way students and their families think about higher education.

To clarify a bit, allow me to give two examples from familiar experience. In England, no one dreams of receiving money for a blood donation nor pays for blood that is transfused; people think of blood as a "precious source of life." In the United States, blood has come to be widely sold and purchased; the perception of it, therefore, becomes one of a "medical commodity."(82) Example two: in days of yore and still today in rural societies, people constructed their own housing and called what they lived in a "home." In much of the United States today, the house you live in, mortgaged to the hilt, becomes a "real estate investment."

To an extent, and keying off the second example, students today are figuring out that they will get an education the same way they will later get a house: you take out a mortgage. And just as the prospect and then the reality of a monthly mortgage payment colors life plans and puts a focus on housing and money markets, so the prospect and then the reality of monthly student loan payments colors perceptions of what education is for.

What educational values are prompted by loans? Instrumental values, I believe, values inimical to liberal education, and personalist values, likewise inimical.

Instrumental values are fostered by loans because loans force a responsible student to think ahead to the necessity for repayment; the incentive of loans is to position yourself through your coursework, major, and degree for a higher-paying job that more readily permits repayment of the loan. In effect, college becomes less and less something done for its own sake and more and more something done for what comes afterwards. Now that is not entirely an unhealthy impulse; but the greater the instrumental purpose the less likely will the student be to "dally" with the contemplations of liberal and civic learning or "sacrifice" to develop general intellectual capacity.

I say "personalist" because the message to students of loans (as opposed to scholarships, grants, work, and parental contribution, each of which I think carries a more positive set of values with it) is that, "you go forward on your own nickel." The response too often evoked becomes, "I am going to get what is coming to me." This is what Frank Newman meant in his report last September when he charged that "excessive loans inadvertently undercut traditional values" (83).

I am prepared to worry a lot about an active impulse within academe that reinforces instrumental and personalist values. I hardly need remind you that in the past five or ten years, as loan reliance has risen, attention to liberal and civic learning has fallen -- the latter, again, for <u>many</u> reasons, but, again, the two phenomena are disturbingly coincident in time. (By the same token, I am persuaded that this decade's shift to loans was itself a by-product of value shifts in the larger society.)

One of the reasons we do not make the connection between educational values and student-aid values is that most educators do not understand student aid and most student-aid policymakers do not understand education. Within the latter community, I find a sense of relief that the overall level of Title IV monies has been maintained through the Reagan era (84), but little real worry about the character of loans and the values they may reinforce. Even on campus, and looking at the ways we recruit and communicate with students, we fudge the very real differences between grants and loans, by making it less than clear that loans raise for the student an entirely different kind of obligation. We too readily hand students aid "packages" meeting "full need," with the incentive, in these days of competitive admissions and tight budgets, to take the proceeds and keep quiet.

We have to keep reminding ourselves of the simple fact that constitutes this eighth proposition: that a loan is not the same as a grant; it has to be paid back. The full implications of that difference -- first to students, then to ourselves, and then to the values that loans prompt -- have yet to be made clear all around.

What I have said up to this point is that a major shift has occurred this decade in the character of aid we provide students; that that shift was more happenstance than planned but is here to stay; that there is new reason for worry in the levels of indebtedness incurred by our students both who do and do not graduate; and that over-reliance on loans threatens values important to us as educators.

Some people say, "Look, this is all governed by legislation, we're talking student entitlement, there is nothing we in the aid community can do." I understand that sentiment, and there is more than a grain of truth to it. And it is an apparent fact, reported to me by people in the field, that the broad conduct of student-aid administration in this country has not changed that much in the last five or ten years -- even as the aid that was being disbursed changed dramatically in character and effect. So what I propose to do in my remaining time is to talk about what we, as educators in the aid community, can do to square things with students and our own values. I will mention four things.

- We can prompt a better set of answers to important questions raised by the new shift to loans.
- We can do a better job of clarifying for students the obligations they are assuming.
- We can begin the search for fairer methods of needs analysis and aid packaging.

- We can bring our expertise to a broadened debate about college finance and the character of student aid.

These four points represent the fall-out, the consequences, if you will, of the decade's shift to loans. Let me take them up in order.

1. Getting better answers to important questions. At this point you expect the usual call one hears at the end of nearly every paper on student aid: the need for more research. But I take that point as obvious, note that my earlier eight propositions -- and what we do not know about each of them -- have raised already many particulars of that need, and move instead to more interesting questions.

Such as, why do we need more research? We always need more research, and the mere fact of unanswered questions is not persuasive. What is persuasive to me is that the questions we need answers to today are more than academic or having to do with refinements to legislation. Those questions are, What are the real burdens that we're putting on college students today? How much burden becomes too much burden and are we willing to tolerate? What are the consequences of loan indebtedness to young lives, academic life, and American society?

These are questions, I must add, that we do not have good answers to, my "propositions" notwithstanding. I acknowledge that there is a substantial literature on student loans, but most of it has as its object questions such as, how can we control federal program costs, how can this or that institutional sector get its fair share of funds, or how can we crack down on defaulters? But the further you get away from the Washington and statehouse and aid-office questions of program policy, oversight, and administration, and start looking for information about impacts on students, the thinner the literature becomes. That is the literature we are missing -- and need.

Another interesting question to me is, who shall be the patrons of this research? I ask this because in research and policy analysis, who pays and what interest they have in the outcomes does matter. Much of the research and analysis that now comprises "the literature" on loans has had as its patron legislative parties of interest, mostly the Washington-based associations representing institutional sectors. Very little of it has had federal sponsorship, or the sponsorship of the guarantee agencies, banks, and secondary-marketers who live off the program. Many "studies," to let charity reign, appear to have been done on a shoestring. Practically none of what passes for this research has been done by national-class scholars who made their reputation in other fields; there is very little contribution to it even from the ranks of those who would otherwise belong to AERA, ASHE, or AIR.

Somewhat out of fashion for these days, my thinking about the issue of patronage leads me back to the federal government. The major developments that have driven the aid system to a new reliance on loans are, after all, federal; the questions at issue are national in scope and implication; it is the federal government that calls the tune on most other aspects of today's loan programs; and it was federal decisions to decentralize GSL that brought so many parties into the act that no one of them felt responsible for research as a function. And if I may draw a historical parallel here, the federal government basically got all those players into the GSL act by paying them to participate; good research costs money, too, so maybe we should think today about financial incentives spread through the GSL system that will prompt needed research and more uniform data collection.

The federal government's first role should be in the collection of "macro" data on the programs it administers. As all of you know, it does so for the campus-based Title IV programs but not for GSL. Thus we do not have sure, reliable data at any point in time on the number of borrowers, the amounts they have borrowed, about multiple borrowing, or cumulative indebtedness. Short of a FISCOP for the GSL (if that were possible), I was pleased to see ED's recent announcement that it will launch this year a full-scale, $7 million survey of students and parents designed to build a data bank on the uses and effects of federal student aid (85).

This action comes from ED's new Office of Educational Research and Improvement, headed by a new assistant secretary with a background in research and analysis. My hope is that OERI, as it calls itself, will not stop there, with the data bank, but keep asking itself, how can we prompt good data about (and from within) the decentralized loan system that ED is responsible for? How about a competitive grants program built around key questions and designed to attract top research talent? How about a compact with guarantee agencies to collect uniform data at shared expense? How about restoration of the $10 allowance to institutions with a proviso that certain of the sums be set aside for local research? How about a lunch between Mr. Bennett and Mr. Fox at which the former introduces to the latter the idea of a Sallie Mae "good citizen" role in sponsoring research?

We also need "micro" research, campus-based, for example on the impacts of loans on student decision-making. Now I do not recommend that every aid administrator take on a new role as a researcher. But every FAO should value research and look for ways that his or her office can contribute knowledge to the questions we have raised, to their home institution and to the larger aid community. I have four small suggestions: organize record-keeping so that data can be accessed and aggregated; welcome, within the constraints of privacy laws; solicit

faculty-directed student research on recipient populations; bring research questions to faculty and show how your issues can lead to their productive inquiry; and try to get your needs on the agenda of your institutional research office (as has been done so fruitfully at Yale).

2. Providing students with better information. For several years through the late Seventies, I was a minor figure in the "Better Information for Student Choice" movement, which had as its goals getting reliable college-choice information in student hands, and providing understandable financial-aid information that conveyed access and choice as a reality, especially to low-income students (86). Not so incidently, I cannot remember any conversations at that time about loans and the practical effects of indebtedness. Be that as it may, the movement faded, a victim of competitive practices in the marketplace and of lessened concern about matters such as good practice, student welfare, and minority advancement.

My re-entry into these questions these last two months has been a bit of a shock to me, and quite a disappointment. My new understanding is that we are routinely party to the putting of $8,000 and $10,000 loan indebtednesses on students, but that their entry into such burdens is all-too-usually unaccompanied by even the least information from us about what lies ahead as an obligation. Given the size and character of those obligations, how could we dream of operating this way?

Over the past two months, too, I have avidly sought out examples of "good information" about loans that might be provided students. In many cases, the person sending me materials has felt obliged to say things like, "this is the only example I know of this kind of program" or "four other banks have brochures like this but ours, weak as it is, is the best" or "the college used this brochure two years ago but has not re-done it since." I have also visited three banks as a GSL parent-applicant; looked through some 400 pieces of literature sent by colleges to my son who is a high school senior; and spoken with a couple of dozen FAOs. The picture, as I say, is discouraging. No one party to the whole process -- in high schools, government, colleges, state agencies, or banks -- seems to have a clear sense of obligation toward students for the matter. Providing good information takes time, it costs money, and it might dissuade a desired student choice, I am told.

To put the matter charitably, perhaps what we are seeing is simply a consequence of a decentralized, multiple-party "system," in which everyone is responsible and therefore no one party need be. To put the matter less charitably, a lot of these parties in a private-market system are in the game for money, and time and money for "better information" counts against a bottom line. The incentive for most of these parties is for students to take that

loan, and for banks to have students borrow big, so any "better information" that might put a caution in student minds is hardly to be embraced.

I want to say at this point that there is no lack of knowledge that stands in the way of providing students with information about loan indebtedness. The earlier "better information" movement developed good guidelines for the content, timing, and delivery of such information. And today, though the examples are scattered, we can find exemplary pamphlets from several banks and state agencies, innovative approaches to debt counseling on campuses, easy-to-use software and easy-to-watch video cassettes that engage students, model notification letters from colleges and guarantors, and more. My reflection is, it is not <u>how</u> to do it that is the big problem; the problem is, <u>who</u> shall take the lead on this issue?

My thinking about <u>that</u> question leads me tentatively in the direction of statewide education offices, including the GSL/PLUS loan-guarantee agencies. My sense is that the "information problem" is more appropriately addressed programmatically at the state rather than the national level; that the several parties of interest need a combined act organized by a trusted convener; and that statewide agencies have the right mix of clout, public interest, and marketplace neutrality to make right things happen. What I am saying, in effect, is that rather than issue a list of do's and exhortations to a variety of scattered parties, the best approach in this Colloquium may be to see student-information problems as <u>structural</u>, recognize the <u>dis</u>incentives that face any one college or bank or other advisor in providing full, unbiased information, and to look to strong agents that can stitch together a more comprehensive program -- stretching from junior high through the postgraduate years of repayment -- that gets understandable information related to choice in every student's hands at identified key points along the way.

To the best of my knowledge, only in Massachusetts right now do we see a concerted act of the type I have in mind starting to unfold -- led by a state guarantor agency, the Massachusetts Higher Education Assistance Corporation (87). Prompted by that example, I grow impatient with generalized appeals to good will and civic obligation. It is time for those who feel keenly about this issue to think <u>politically</u>, about <u>structural</u> arrangements that will bring parties to task and needed information to students.

3. <u>Rethinking needs analysis and packaging</u>. My sense in returning to the aid community after an absence of a few years is that little has changed. The <u>character</u> of the aid we disburse has changed -- a lot; yet our <u>ideas</u> about needs analysis and packaging seem much the same -- but now out of joint.

It now seems strange to me, for example, to impose future repayment obligations on students on the basis of what their parents had as an income at a point in the past. And it seems strange, too, to heap the same big loan on a freshman as on a senior, when the freshman's future plans and earnings potential are ever so much more problematic. But that is what we do. Our needs analysis and packaging made more sense when what we were disbursing consisted primarily of grant money. They may still "make sense" as devices to ration money and control federal costs. But when I think as an educator about student situations, business as usual makes less and less sense.

If there were a broad direction for change that would follow from this observation, it would be along two lines. First, in concert with students and during the undergraduate years, we would vary the amount of indebtedness by student major and intended career. Second, we would impose no or low indebtedness in the first year of studies, only moderate levels in the second, and (corresponding with student choice of field) moderate to high levels of debt in the junior and senior years. I want to stress that both of these things depend on the other happening, so they would have to be done together. Let me say an additional word about each.

As to varying total indebtedness by major field and intended occupation, I want to point out that this principle is already the practice at the graduate and professional level, where it makes sense and works reasonably well. That is, within the same university, and reflecting the very different earnings potential for students in different fields, a law student might typically borrow $9,000 a year, a music educator $4,000; on the average, and given their expected future salaries, the two will wind up with a roughly equal repayment burden. Why cannot we think more creatively about that approach for undergraduates? When we know, for example, that students in our engineering school will move into starting salaries in the high twenties, and that our teacher-preparation candidates will have to take jobs in the mid-teens, why cannot we allow the former, if he or she chooses, to "borrow to the max" while restricting the future teacher to a different, lower level of indebtedness?

Admittedly, the principle of debt-by-field is trickier to apply at the undergraduate level: the correspondence between field of study and field of work is lower, what do you do with students who change fields late in the game, what about the English major, for example, for whom "field of work" is quite uncertain, and so on. But there are ways to handle these problems, and I hope you will not let apprehension about administrative detail cloud your thinking about the more important question: which approach is fairer? One, flat debt for all graduates, or indebtedness that varies by estimated ability to repay?

To link this first point to the second, my thinking is that debt differential should almost never begin before the junior year. Two-thirds of all freshmen, as we know, wind up pursuing majors other than those they intended at entrance; only by the junior year do declarations tend to be firm. Also, I want low-loan early, variable-loan later because I want to remove the present incentive to students to choose majors on the basis of their income potential to repay loans; I want, as an educator, to excise a distortion from student choice of studies, by having all majors imply roughly the same burden of repayment. Also -- and here I connect with a better-information point -- I think that the loan consequences of choice of major should be openly and frankly discussed with students, and that the rising-junior level may be the better point at which to counsel about indebtedness than the freshman year (where our efforts tend not to be successful). Moving the locus of debt counseling and assumption to the rising-junior level also gets those processes out of the recruitment jungle and beyond the realms of freshman naivete and uncertainty.

Freshman, and to a lesser extent sophomore loans: I could give you ten reasons why they are a bad idea, and you could add five more. Entering freshmen do not understand them or have a readiness for that kind of obligation (88); the increment to earnings potential from the start of college is often lower than the level of the debt (89); freshman loan dependency adversely affects persistence, especially for men (90); three-fourths of all undergraduate defaulters never got out of the lower division (91); our lower-division programs are clearly the weakest part of all postsecondary offerings (92); we know that present arrangements place disproportionate outcomes of burden on minority students (93); students who borrow later in their college careers feel more positive about their loans (and are more likely to repay) than do first-year-only borrowers (94); and so on.

An end to freshman loans, and restricted loan reliance in the sophomore year, is tricky to think about, especially when the situations of independent students and students in one- and two-year occupational programs are taken into account. But the spirit of what I am recommending, its direction of travel, is toward greater flexibility in aid administration, and within that spirit I think a variety of situations could be accommodated. In general, the rule I would posit is this: only as a student succeeds and progresses in a course of study, and then reaches a point of commitment to field, would loans become a primary source for his or her college finance.

Ah, but how could we afford it? And here I realize that in part I bump up against something I said I would not discuss, Washington legislative matters. If I were a policy analyst,

though, I think I would have a case that could be sold on the Hill. It would ask for higher levels of Pell and CWS earmarked for lower-division students, to replace freshman-sophomore loans; higher loan limits at the junior-senior level (and less grant money there); and greater latitude for FAOs to adjust packages across a range of situations. The approach would project significant, long-term savings in federal default and in-school subsidy costs, offsetting the requested grant monies.

Realistically, I know this is not the year for a change of this magnitude. But I am not sure that some aspects of it cannot be realized within present and projected GSL structures. I say "projected" because the House reauthorization permits junior and senior GSL awards to jump to $5,000 a year, while capping lower-division loans at the present $2,500; this at least opens the possibility that four-year colleges can over time phase in lower initial awards with higher later awards without major damage to their cash flow.

Even beyond that, institutions could concentrate the award of existing grant and work monies in the lower division; insist for dependent students on higher parental contributions (including parent loans) during those years; lower freshman and sophomore tuitions (raising latter ones) to reduce necessity for early-year loans; and they could lobby at the statehouse for state grant monies (new or redirected) targeted at reduction of freshman-sophomore indebtedness (95).

My point is that there are strategies that could advance us toward the goals I posit, that are within our purview and that do not immediately depend on Washington. The prior need, though, is for collegiate institutions to see the importance of doing something about an unhealthy present situation (96). And it will be easier for groups of institutions -- all the public colleges in a state, for example, or a conference of private colleges -- to realize this goal together than it will be for any one institution to do it alone. I would like to see one of the statewide presidents associations, or a state board or a legislative or gubernatorial office, step out front to marshall the forces (and resources) for a major, concerted change in the timing and bases for student loans.

Nothing that I have said so far in this third point assumes any drop in the size of loan indebtedness assumed by students over the four years of college. But the size of indebtedness -- $8,000 and $10,000 now, soon to go to $14,500 as a cap under the House bill -- remains a problem, and I now turn to it.

4. Prompting alternatives to loans. For all the reasons I have stated earlier, I do not believe we can continue with an upward spiral of student indebtedness. What are the alternatives? Let me sketch them in two broad categories, the

first having to do with lines of development within the collegiate community, the second with a rethinking of the bases for aid in the first place.

As to the first point, let me list institutional options, not all of which apply to all colleges or student situations, but each of which would have the aim of reducing student reliance on borrowing.

- o We could attempt to foster wider use of concepts of cooperative education; right now, "Co-op" enrolls over 200,000 students in some 1,000 programs.

- o We could create summer and term-time job programs that paid higher salaries and thereby bolstered the ability of students to earn significant proportions of college costs (as Cornell University has done).

- o We could bring down tuitions and advance student work by using the Blackburn-Berea models of student employment.

- o More private colleges could do what Barry did, lower the tuition (and aid reliance) in hope of increased enrollment.

- o We could support creation of public-service jobs or service commitments that would return to students grants for tuition (as Frank Newman urges).

- o We could counsel some students to stop out for periods of work so as to finish with lower debt (as St. John's University in New York has done).

- o We could insist (as the House bill does) that all other sources of aid be exhausted before a loan is allowed.

- o We could reduce student borrowing, especially as freshmen and sophomores, by insisting upon higher parental contribution or borrowing in those years.

- o We could do more to encourage parental savings, and find ways to reward it, so as to reduce student need to borrow.

- o We could engineer plans to assist parental cash flow, where that be the problem, to the same end (as Penn has).

Well, that is ten things. My point is, that if we allow ourselves to think more broadly about college costs and how they might be met, and about college pricing and payment options, there exists a far broader range of alternatives than the present one of simply slapping a $2,500 loan on everyone (97).

Now the second point. I begin by calling to your attention results from an annual poll done by Opinion Research Corporation for CASE and NEBHE (98), the latest released this past October 21. This poll of the American adult population has asked a core of similar questions for four straight years now, and reports "a steady decline in support for U. S. government-funded financial aid programs targeted at low and middle income students." Two years ago, 63% of adult Americans favored increasing such aid and ranked it 3rd highest in priority among 14 federal programs; this fall, only 53% favored that aid and ranked it 7th in priority. As for low-interest loans to middle-income students, support has dropped from 51% in 1983 to 46% in 1984 to 40% in 1985. On what basis do they feel student aid should be awarded? Of those polled, 41% said "need"; but 43% now say, "a student's academic abilities and promise."

I know this gets into a controversial area, because for a long time the Apostles' Creed of the good guys in student aid has been, "We only award aid on the basis of need." Bitter opposition, for example, has come forth from within the aid community to merit scholarships, even as those awards have come to be widely supported by the American public and put into place by hundreds of colleges.

What I am suggesting is not that the canon be overturned. I support need-based aid and regret the flood of dollars channeled into the competitive buying of brighter students. But it may be time for us to listen to the wind more carefully and be open to new bases for the award of aid that are at least no more inequitable than the status quo, bases that could reduce reliance on loans and command the respect of the tax-providing public.

One area in which we are vulnerable is the present disassociation between mainline financial aid mechanisms and incentives for academic achievement. When I look at a variety of the recommendations, trends, and experiments in the air today having to do with aid -- Frank Newman's proposal for aid on the basis of community service, the Dana grants to promote aid related to academic tasks (99), state rumblings about cutting off aid for remedial work, even merit scholarships -- what they all have in common is a sense that our status quo does not connect sufficiently with important societal and academic agendas. I am not going to lay on you some new theory about on what basis aid should be awarded to students. I am simply suggesting that our traditional rationale of "need-based aid in the cause of access and choice" may not be sufficient to carry us forward into the future, that we need new, stronger, more compelling rationales -- which I think will involve linkages with academic or civic performance -- to climb out of the hole we are in with student indebtedness.

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Fulfilling the Institution's Responsibilities to Student Borrowers

a commentary by

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I believe I speak for all in the audience when I state that Ted has presented a marvelously thorough and insightful review of the student loan situation at which we have arrived. We all face a critical challenge in maintaining access to education without severely handicapping the economic future of those we educate. I was struck by Ted's metaphorical representation of the GSL Loan program as a 900 pound gorilla. At the risk of carrying analogy too far, I would ask, "Is this gorilla a reasonably well-adjusted adolescent becoming increasingly domesticated within Washington's bureaucratic zoo?" Or, "Are we, as participants in the various aspects of the program, collectively represented by Fay Wray in the grasp of the gorilla, half-way up the Empire State Building, with the federal government poised to destroy the gorilla and leave our fate to chance?"

Enough of metaphor and fear-mongering! I was asked to respond to Ted's presentation from the viewpoint of an aid administrator. In so doing, a few disclaimers are in order -- my biases reflect my position at a large, independent, high-cost, comprehensive research university with a predominantly traditional student population. We are in the student loan business in a big way, depending upon more than $2.5 M in institutional loans, $5 M in NDSL and HPSL and over $20 M in GSL, to maintain our policy of meeting the full financial need of our undergraduate students. Although I will try to be as general as possible, my remarks may not adequately or accurately reflect the views from other types of institutions. I have only had time for the most cursory of surveys of my colleagues in other institutions, so these views are mostly personal and experiential, and are intended to raise issues and provoke discussion. Do not take them as even my final judgment -- I assume we are all here to explore together.

I would like to focus briefly on six aspects of our expanding educational loan dependency and consequent student debt burden:

- Public trust in educational institutions.
- Consequences of GSL growth on student packaging practices.
- Changing responsibilities of the financial aid counselor.
- Conflicting pressures in the administration of the GSL program.
- Cultural differences in receptivity to borrowing.
- New resources to facilitate student loan counseling.

1. Public Trust in Educational Institutions. It has long been my impression and my experience that parents and students approach the Financial Aid Office from an attitude of great trust. We are there to help the student get a good education and to help the parents and/or the student to pay for it when they have financial need. The "buyer beware" attitude these same persons would adopt at the bank, or the department store, or the car dealer is often missing. When we determine their need and include loans in the package, many of our clients are interested only in fulfilling the mechanical requirements necessary to obtain the assistance and assume that we will not put them in an untenable position in the future. They will often ignore the best possible information which provides the appropriate cautions.

Aid administrators on the other hand are disposed to provide resources, and are often in a position of doing so without personal contact with the borrower. The clear consequence of these factors is a certain inevitable level of unnecessary or inappropriate borrowing.

Those of us working in the aid offices of colleges and universities are inevitably the ones with the most student contact and the most comprehensive responsibility in structuring the student's financial status. As more and more students leave school, with or without a completed education, but with ten or more years of heavy debt burden, will they look back on their experience with financial aid as a helping hand or as a seduction into financial dependency? I believe we risk a gradual and serious shifting of Public attitude regarding the trustworthiness of our educational institutions unless we make major improvements in our ability to inform and counsel our students about the consequences of the borrowing we have made so easy.

2. Consequences of GSL growth on student aid packaging. Initially the GSL was the last element in a student's package, other resources being utilized first. Often it was not even considered as part of the package to meet "need". Increasingly it has become the first element in the package, as self-help portions and unmet need have grown in parallel with the rapid inflation of educational costs, while federal and state grants have remained stable at best. It may be used differently for students from families with incomes exceeding $30,000 than for those from lower income families.

The impact on packaging may be compounded by stricter institutional or state standards in determining the self-supporting status of students -- e.g. a student in California may be dependent in terms of eligibility for a state grant, but self-supporting for a California GSL. Institutional standards at high cost schools are often stricter than either federal or state. The consequences for packaging can be very complicating; for counseling students they can be extremely confusing.

Other impacts on packaging that have either been considered or even occasionally become practice include: different loan limits for different majors, different loan limits for different class level, or even different loan limits for students in different income ranges but with equivalent need. Needless to say the prospects of greater debt at a higher cost school is a factor in student choice of institution - the importance of that factor being a matter of considerable research and debate. Ted's proposal to expand the use of packaging composition tailored to majors and presumed future earnings capability has a certain appeal, but is an approach which I would find inappropriate for undergraduate education. It effectively amounts to differential pricing of different kinds of degrees with the price differentials exaggerated at private, high-cost institutions.

While such price differentials already clearly exist at the graduate and professional levels - an MBA is clearly obtained at different cost than an MD - and while packaging usually does reflect those differences, and incorporates future earnings potential as much as possible in the process, those differentials are not nearly so prevalent in undergraduate education, nor are future incomes predictable with any certainty at that level. Furthermore, the students in graduate and professional programs are for the most part working and studying as a fairly homogeneous cohort. At the undergraduate level students from all majors are sharing classes and extracurricular activities and would be keenly aware of these financial advantages or disadvantages in packaging composition.

I would not want to have to compound our already difficult task of explaining family contributions and packaging philosophy to parents or students by adding the task of explaining to our business majors why they have large loans and our philosophy majors don't. There is simply too much uncertainty in any individual connection between student choice of undergraduate major and that student's future career.

The additional administrative complexity of such packaging policies also appear burdensome. The prospects of changing the package when a student changes major, or reviewing the composition each time new statistical data become available, or as societal values shift economic rewards from one type of career to another, are most undesirable.

Finally I question the values we would be communicating by the adoption of such strategies. The material link between a professional education and the student's future is already well established. To extend it further into the realm of general post-secondary education would contribute, I believe, to a fundamental distortion of the humanistic and idealistic motivations which have been an essential part of our educational heritage and tradition.

3. Changing Responsibilities of the Financial Aid Counselor. It has always been a challenge to explain with clarity and reasonable brevity a student's financial need, or conversely our determination of the family's ability to pay. The other responsibilities for packaging, fund accounting, adherence to federal and state program regulations and sensitivity to the institution's needs and objectives have always placed the aid administrator in a complex, delicate and challenging role. "You want to be a financial aid counselor? You must be crazy!"

Now with GSL explosion, compounded by the neophyte PLUS program (now over $3 million annually at USC) and other institutional financing initiatives, the counselor is required to be a financial planner as well. The training available has been reasonably good, but the ability to take advantage of it has been spotty. The consequence is increasing frustration. More help and resources are needed.

4. Conflicting Pressures on the Administration of the GSL Program. At the same time we raise concerns about the adequacy of debt counseling, the default rate and excessive debt burdens, we are also participants in a struggle to get the money to the student, and therefore to the institution, faster and faster! "Turnaround Time" has become an evaluation parameter! Two years ago it was over two months from application to disbursement. Now some claim four days, and two weeks is certainly not uncommon. Institutions, lenders and guarantee agencies are all partners in competing for business on this basis, and this competition is fast becoming a major issue in program administration.

Another pressure to intensify procedural haste comes from educational administrators who are concerned about enrollment, and want earlier, better aid packages. This conflicts directly with the pressure from program monitors and professional judgement for reasonable, cautious loan counseling and thorough need analysis. Packaging policy is set earlier in the cycle and the outcomes for fund management become correspondingly less predictable.

Another pressure is that of sheer volume in the face of inadequate staffing. Institutions have generally not been able to meet the expansion of work load adequately, and so the level of counseling has declined. Increased demands for validation in other programs have compounded the problem.

All of these pressures promote increased error and further over use of loans, and make the program even more at risk.

5. Cultural Differences in Receptively to Borrowing. We are seeing increasing resistance to borrowing by our students from disadvantaged backgrounds, particularly minorities. Their families have often had bad experiences with credit, or none at all, and (contrary to my earlier speculation about

over-willingness to borrow by the majority) are often most unwilling to take on any debt. This hampers recruiting and retention, and the proposed solutions often lead to cries of reverse-discrimination. The trend toward increasing student borrowing may well act contrary to our goals of expanding opportunity, access and choice for these groups. Recent declines in the rate of college attendance among some ethnic groups may be correlated in part with this rising student dependence on loans. If counseling is going to effectively counteract these fears, it needs to occur before the student completes secondary education and before the student makes the choice not to attend college.

6. New Resources to Facilitate the Student Loan Counseling. One area where there is new optimism for improving the level of consciousness in student borrowing is the area of technological development. Slide presentations and video tapes of all aspects of the loan process and its consequences have recently begun to be utilized. Both commercial and in-house products are appearing rapidly, as are personal computer tutorials. Software packages can now be purchased which lead the users step-by-step through their own anticipated borrowing experience, including potential income, prospective ability to make payments and any resultant restrictions on life style. At least there seems to be good reason to expect that tools to simplify the information and counseling process are now fast becoming readily available.

These are but a few of many impacts on operations in the Financial Aid Office which relate to or derive from the explosion in Guaranteed Student Loans. They are some of the issues which, along with those others you may have in mind, we will be addressing during the next two days. While we explore those I would like to raise a larger issue in the hopes of changing the gorilla into a gazelle (an animal known for running smoothly!). Most of what we have heard so far reflects only some of the problems (and the successes) of a program which has been designed, I believe, to keep things as simple as possible for the Department of Education at the expense of great complexity for the other partners and in an environment of great client diversity. Is it really possible for one program to satisfy the needs of students from all segments of post-secondary education?

Nothing in the Reauthorization Debate so far suggests radical changes in the program -- only more restrictions and higher borrowing limits probably leading to more debt and more default. Perhaps it is time for some creativity in program development. Campus financial aid administrators have developed a rapidly increasing sophistication in understanding different kinds of loan programs. Perhaps we can develop some variations on this basic program which would make it more workable, and improve its public credibility, while at the same time making it more economically viable.

Fulfilling the Institution's Responsibilities to Student Borrowers

a commentary by

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The Guaranteed student Loan Program, which makes up the bulk of the student loan program dollars, is a difficult program to comment upon. It is simultaneously a significant form of subsidy to postsecondary education students and a liability on students future income. A rough rule of thumb is that about half of the face value of the loan is a subsidy to the student over the lifetime of the loan. There are some students graduating from college with as much as $100,000 debt which implies a significant repayment burden even with a subsidy.

The problem of determining students, families and governments appropriate share of college costs is being aggravated by the fact that a greater share of postsecondary education costs are being paid by loans. There is roughly $40 billion of GSL debt outstanding now and that amount is growing annually as more students use loans to finance their education. That is a mixture of public and private liability. Loans are popular because they allow limited public resources to leverage private capital. It also seems to strike people as fairer to have students pay back the loans instead of taking a full grant.

I would like to enlarge on five points raised in Ted Marcheses' excellent paper. First, the GSL program is an uncontrolled spending program and with its powerful lobby and automatic propensity to grow, it has the potential to squeeze out other forms of student aid. This is even more possible in a period of declining ceilings on federal spending for student aid. The GSL program has the potential to become the only form of aid or to destroy itself.

Second, the subsidy in the GSL program is perverse. The longer a student goes to school and the more he or she borrows, the greater the subsidy. Generally, those who go to school the longest make higher incomes in their working life. Thus, those borrowing the most and making the most money receive the largest subsidy. Those who make the least are more likely to default and suffer the indignation of having to deal with GSL bill collectors. To allow those who are going into programs of training that have greater potential income to borrow more would only increase the inequity in the current subsidy.

Third, defaults are a natural part of the loan program. No lender would make these loans if there was not a federal guarantee. There are legitimate reason for defaults, for example, when borrowers don't have enough money to pay their loans back. The rest of the default problem may be solvable by improving the counseling of students before they borrow and improving the overall management of the program. We need to be able to discriminate between the reason for defaults to help blunt public distrust of the program.

Fourth, we should not institute a limit on loans based on a current estimate of students ability to make a certain income in the future. The willingness of a student to incur debt to pay for his or her education is a matter of personal values and goals. There is no point and probably little value in trying to limit individual borrowing according to some assumed future debt to earning ratio.

Fifth, some of the problems that students and institutions have with the GSL program are a function of the confused management of the program. In many instances there is no one in charge of making sure that there is appropriate information or counseling available for borrowers. Inefficient record keeping invites over-borrowing and default. Increasing leadership from the federal government could help improve the condition.

Each one of these five topics is addressed in more detail in the next sections and there are several policy recommendations that are included at the end of the paper.

Increasing Program Costs

There is no disputing Ted Marchese's basic proposition that there has been significant growth in GSL's. One of the basic reasons for this is that GSL costs are uncontrolled while congress can control the costs in all the remaining student aid programs.

The structure of the program makes costs difficult to control. The single largest factor in program costs is Treasury-bill interest rates. A one percent change in ninety-day T-bill interest rate is equal to $400 million in program costs. Short range costs are difficult t control because roughly 80 percent of the annual program costs are determined by loans that have already been made.

In recent years it has been federal policy to increase the use of student loans. The legislative history is one of increasing incentives to lenders and states to provide more loans. Now that the policy has succeeded, there is a shift in direction and the policy community is trying to find ways to limit loans and reduce federal costs.

The confrontation between the two trends could result in a significant dismantling of the GSL program or a sharp reduction in funds available for other student aid programs. Either way, the outcomes would be difficult for students and institutions to deal with.

Equity Issue

Loan eligibility is conditioned on current income and yet the interest subsidy is provided to the earner in the future. It would make more sense to provide the subsidy to the earner in the future. High income students should receive the least subsidy and low income students them most. This would reduce the propensity of students to take jobs based only on income considerations because of their need to repay their educational loans. This would have the added benefit of reducing defaults caused by students who are not earning enough early in their career to make their loan payments.

The current logic of the program is perverse in that there is an incentive to borrow because of the subsidy in the program. But even with the subsidy, there is a possibility of borrowing too much. The student who goes to school the longest and borrows the most will receive the largest subsidy. In general, the longer one goes to school, the more life-long income one will receive. The conclusion is that loans will provide the greatest subsidy to the wealthiest in our society. The greatest repayment burden and the more modest subsidies will be the lot of the middle and lower income groups. Teachers, policemen and other public and private employees with modest incomes will be harder pressed by repayments and will receive the lowest subsidy. Using loans to correct the difference in todays' families ability to pay only passes the inequity on to future generations.

Defaults

Defaults are a political liability for the program. Because there is little specific information on who is defaulting and why, anecdotes and speculation take center stage in the debate. Given the nature of the program, it is reasonable to assume that there will be higher default rates than would be the case in more traditional loan program. The problem is trying to determine what is an appropriate level of default level in the Program.

Default that is caused by borrowers who can't pay their loans because they don't have the income is to be expected and accepted. Defaults that are caused by a lack of information to the student prior to borrowing or by inadequate follow-up by the administrative apparatus is to be reduced to zero if possible. Currently there is no way to discriminate between the various causes of default. More effort needs to be expended on

determining the causes of default so that they can be reduced without damaging the availability of loans to those who need them.

Student Indebtedness

There is an assumption that student indebtedness is growing too fast. In some respects the assumption is true and in others it is not.

Generally, students are good monitors about the appropriate levels of debt. The average debt of students who borrow is well below the maximum allowed by law. The exception is that of the very lowest income students who are being forced into loans because grant assistance is no longer adequate for their needs.

Assuming that there is appropriate disclosure of the repayment obligations, interest rate and cumulative monthly payments, students and their parents are the best judge of whether they should borrow or not. There are differences in values, life objectives, and attitudes that will reflect the appropriate level of debt for any specific student. A general document outlining the expected levels of income that a student might receive in a specific line of work would prove helpful. This would help a potential borrower to anticipate what portion of his income would be used to make loan repayments.

Concern about over borrowing is greatest for the very poor student who is forced to borrow because grants are no longer adequate to cover the costs of education. Poor students have a harder time completing school and if they do, in many instances, their income is lower than students from upper income backgrounds. Low income students may have even greater problems with calculating the reasonableness of loan burden than other students because of more limited information about banks and banking procedures. The greatest effort should be made to tell students about student aid policy and how to best finance their education well in advance of the specific decision about which school to attend.

Management Issues

Some of the problems with the GSL program are a reflection of the fact that there is no clear responsibility for solving them. There is not clear agreement about the degree of centralization or decentralization. The result is that in many instances nothing is done. Examples of the types of problems that can result in program default and inadequate information for borrowers include:

A lack of common program audit standards

No federal training program to assure effective program operation at all levels.

No control for some forms of over-borrowing by getting loans from more than one guarantor.

There are excessive errors caused by inefficient recordkeeping and transmission of information among the many participants in the loan program.

The federal government is trying to address these problems. If the modernization of the management system is successful it should allow for more time to be spent with students and their problems.

Conclusion

There is little chance that program costs will be controlled in the short run without seriously dismantling the program. If there is a sharp reduction in federal funds for student aid programs there could be a serious disruption in the GSL program. If savings cannot be realized in the GSL program, then other programs may be slashed thus increasing the demand for loans. If the loan program is cut sharply, the character of the program would change radically. Even if such a sharp cut in federal support is not forthcoming, there will not be enough money to increase funding for the major student grant programs in the near future. This means that the poor will continue to suffer from a lack of grants.

There are some positive steps that can be taken regardless of future policy at the federal level. First, we can study the problem of defaults and undertake some thoughtful steps to reduce the problem without overburdening the program with unnecessary regulations. Second, we can make sure that the information available to students both in general and specifically is adequate to assure a reasoned choice on their part. Third, the general management of the program can be improved so that more resources can be focused on the students behalf.

There are some specific policy suggestions that could help stem the increasing reliance on loans. The first is to increase grant assistance to the poor. The second suggestion is to reduce the use of loans during the first two years of school. Upper division students are more certain about their majors and are less likely to drop out. If larger grants were made to students during their first two years it would help cut loan program costs which in turn could help pay for some of the increased cost of grants. A third policy suggestion is to implement some form of graduated repayment which would allow students to reduce their loan burden during their early work years when incomes are generally lower. The fourth suggestion is to allow consolidation of loans for those that borrow from more than one source or borrow a great deal from one program.

The key activity that could be instituted quickly to good effect is counseling done by high schools before students are in the process of making a decision about whether to go to college. Good financial planning takes place while there is time to consider a wide range of options. By the time the college financial aid administrator talks to the student there may be pressure to make a decision quickly. The counselor is also a neutral agent, more likely to be sensitive to the students needs than are representatives of colleges. This may be more important as enrollment pressures increase on colleges.

Long-term Implications of Student Borrowing

by

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INTRODUCTION

Any discussion about student loan borrowing today, at least from a public policy standpoint, must begin with the observation that student loans have become the major source of financing postsecondary expenses for millions of students in the U.S. And, while a number of student loan programs are available to serve the different needs of students, the Guaranteed Student Loan (GSL) program surpasses all others insofar as the number of students who borrow and the number of dollars expended.

The purpose of this paper is to review the findings of a recent study conducted by the National Association of Student Financial Aid Administrators (NASFAA). The results of this research will be discussed in the context of other research on student loan programs and the characteristics of borrowers.

Acknowledgment is given to the Lilly Foundation, Inc., whose generous support made NASFAA's research project possible. In addition, Dr. Joseph Boyd, one of the longstanding researchers in the field of student aid, is to be acknowledged as the one individual perhaps most responsible for the project's success. Under contract with NASFAA, Dr. Boyd was responsible for the research design, data collection, statistical analysis, and preparation of reports. The support of Dallas Martin, NASFAA's Executive Director, and the role he played in representing NASFAA's interests, was essential to the project.

Finally, appreciation is expressed to the College Scholarship Service (CSS) and the College Board for providing the opportunity to present highlights of NASFAA's study at the Debt Management Colloquium.

A complete report, The Characteristics of GSL Borrowers and the Impact of Educational Debt, has been published by NASFAA in a two volume format: Volume I is a narrative review of the study and its major findings; Volume II is comprised of statistical detail, tables, frequency distributions, etc.

This paper outlines the research on student loan borrowing and reviews the significant findings of NASFAA's study. The major implications of this research and the important issues raised will be discussed in the conclusion.

THE RESEARCH TERRAIN:
What Do We Know About Student Borrowing?

While many in higher education, and in the field of student aid in particular, often bemoan the lack of research in the field and inability to answer the burning questions of the day, a case will be made here that research on student loans and the implications of borrowing has shed much light on the subject. This can be demonstrated with a brief review of several research efforts that contribute meaningfully to our knowledge about student loan use and to our awareness of the issues. Apologies are made to those whose work is excluded in this brief review. A selected bibliography in NASFAA's loan study lists 24 background sources worth considering, and even this list is not comprehensive. For the purposes of this paper, selected efforts will be presented as examples of what one might call the two basic schools of thought when it comes to research on student loans.

To oversimplify, most of the research to date on student loan borrowing has been along two general lines: research which attempts to establish theoretical models to permit forecasting of manageable student debt levels (based on such variables as amount of loan, repayment terms, projected career path, start-up salaries, and projected living expenses) and research which focuses primarily on borrowers who have defaulted on loans (in an attempt to learn the characteristics of defaulters and potential causes for failure to repay).

Two Schools of Thought

Whether or not students repay their loans has a great deal of impact in both political and fiscal terms. The political implications are obvious in that the failure to repay, or even the perception (justified or not) of widespread default, leads to unfavorable public opinion about the use of taxpayers' dollars for such programs. In fiscal terms (no matter what the default rate calculation yields) the default volume, in dollars and cents, is increasing to the point where the Secretary of Education has issued press releases noting an "alarming" rise in GSL default rates and reporting the most recent ED projections that over $1 billion in default claims will be paid by this year.

Research which seeks on the one hand to discern what levels of debt students can manage, or on the other, to identify the characteristics of defaulters so that we may develop preventative measures, tailored to the profiles which emerge...research of this kind plays a major role in the on-going discussions about student loans.

In reviewing models that could permit an estimate of manageable debt levels for student borrowers, one is given a sense of both the simple and the sublime. For instance, one approach

may be dubbed the "6% solution". It is based on a 1978 publication by the Massachusetts Association of Student Financial Aid Administrators. The gist of this approach is a rationale that "6% has been accepted as a conservative estimate of the percentage of income available for repayment of educational debts."

Admittedly an arbitrary approach, this assertion has to some extent been born out in more formal research on the matter. But even as an arbitrary measure, a simple line drawn in the sand, this approach set a standard, a sense of guideline, upon which aid administrators and students could measure loan burden against projected incomes. In the Massachusetts aid administrators 1978 "Guide To Student Borrowing," student borrowers (and prospective ones) were presented with tables which displayed the level of debt the student could incur as a function of the required income levels that would generate the necessary 6% for repayment purposes. So that, the tables showed, a borrower could take out $15,000 in 7% GSL and manage the annual repayments of $2,000 a year, if gross income was $34,800. While not the most scientific approach, this is an important illustration of what can be called "getting to the ballpark." Efforts such as these at least gave students and other aid administrators something concrete to look at and think about, some ballpark idea of the implications of student loan debt.

The work of two individuals is particularly influential. In the late 1970's, Richard Kraus, at the time Associate Dean of the Graduate School of Arts and Sciences at Harvard University, was a presenter at national and regional financial aid forums, and took the opportunity to raise important questions about growing levels of debt he perceived among his students. Mr. Kraus is to be credited for stimulating the profession to address the growing debt burdens of students. He also is the creator of one of the most novel approaches to identifying the amount of income a graduate might have available for the purpose of loan repayment. In a nutshell, Kraus saw in the Uniform Methodology need analysis formula the perfect model for estimating the resources young professionals might have for repaying their loans. Kraus reasoned: just as the purpose of need analysis is to identify, after various legitimate allowances, that portion of overall family resources which is available as a contribution toward educational cost, so too is the need analysis formula available as a means of measuring projected income, family size, state and local taxes, etc., for the purpose of deriving a portion of discretionary wealth that is available to a borrower for loan repayment. Richard Kraus expanded this basic analogy to include projections for the effects of inflation during the years of repayment and put it all together in a 1979 pamphlet called "Educational Loans -- How much should I borrow: A Guide for Graduate and Professional Students." With this guide students could calculate manageable levels of loan debt based on their projected salaries. This is one of the first such counseling efforts dedicated specifically to debt

management. By 1985, the profession would be experiencing what might be called a renaissance in counseling, as the techniques available to students to measure the potential impact of loan debt would be expanded and developed in many, innovative ways.

A landmark publication that truly crystalized much of the early work on debt management and advanced the discussion up several notches was Dwight Horch's 1978 study, Estimating Manageable Education Loan Limits for Graduate and Professional Students. An important concept Mr. Horch developed in his model is that the relationship between income level and comfortable loan repayment is not a fixed percentage. Instead it can range, based on a variety of variables, from 5.4% to 6%, and even to 12% of after tax income. Horch's approach differs from that of Kraus in a basic way: instead of looking to the Uniform Methodology as a model for identifying potential resources to be earmarked for loan repayment, the Horch approach goes at it from the expense side--what do consumers spend, at a variety of standards of living, and of those expenditures, what amount can be designated as available for loan repayment? Looking at consumption patterns in this way permits one to recognize the earning levels required in order to manage levels of student loan debt which are in excess of basic, necessary, consumption requirements.

In addition to this kind of analysis and modeling, a descriptive body of research exists in which the characteristics of loan borrowers, particularly those in default, are examined. Modeling is prevalent in this descriptive research as well, but typically it involves projections of one kind or another on the characteristics that might lead one to default or which attempt to create a profile of loan defaulters.

Three particular studies will be reviewed as exemplary of this school of thought. The first is that of John Lee, who looked at Guaranteed Student Loan default rates in research for the National Commission on Student Financial Assistance, in 1983. While Mr. Lee's findings are preceded by several caveats about the limitations of the research, given certain understandable problems with the data (the data set was the first which attempted to collect default data on a national level; of 4.9 million records for use in the research, only 2.7 million were deemed complete and error-free; not all states were represented in the study) several important principles emerge. For example, the academic year in which the borrower was last enrolled is highly correlated to default. Borrowers entering repayment status after the first year of postsecondary education are more likely to default than others. Indeed, the default rate decreases progressively for each year the student advances in the academic program.

One of the more surprising findings (to some at least) of John Lee's research: students with total debt over $9,000 have a lower probability of default than students with smaller loans. While

this may be so, for a variety of plausible reasons, NASFAA's examination of borrowers in repayment will show that certain of these high level borrowers are affected much more so by their debts than others even though they maintain their good standing. But more on this in a moment.

Other findings of John Lee's worth recapitulating: students attending two year public colleges and proprietary schools have higher default rates than other students; the mean total per student debt is $3,000 (lower than that concluded in NASFAA's research but understandably so given the fact that John's research involves pre-1980 borrowers); higher default rates are associated with early stages of repayment.

While John Lee presented his findings cautiously as preliminary results, they help identify the key points for further examination. Indeed, these findings have been very much supported by subsequent research. Most notable of these efforts is The New York State Higher Education Services Corporation 1984 study: Student Loan Payers and Defaulters. This study was based on an analysis of the New York State GSL agency's data base of borrowers currently in repayment or in default. A questionnaire was mailed to a population of 175,204 borrowers who had graduated or left school in 1982. Borrowers were categorized by three groups: those in repayment, those in default, and those who had defaulted but who subsequently had made a payment. The mail questionnaire was designed to collect information on the borrower's current financial status, the circumstances under which he or she left school, and the extent to which the borrower understood the amount owed and the terms of repayment.

Some of the conclusions were: borrowers who had jobs when loans became due were more likely to repay; borrowers who last borrowed as freshmen had the highest default rate, and the default rate decreased the longer the student persisted; borrowers in one year programs in vocational schools showed relatively high default rates; those in repayment tend to have borrowed more than those in default (the mean debt for repayers was $4,626; that for defaulters was $3,106); defaulters more so than repayers have borrowed more than one type of student loan; borrowers generally received very little help from their families in repaying loans, however the proportion of repayers who reported family help was three times as large as the proportion of defaulters who reported such help; borrowers who are in repayment were nearly twice as likely as defaulters to know when payments would begin.

While this research focuses on a particular state, New York is one of the more established state programs with one of the largest borrower populations. Not only do the findings in this study support the preliminary results of John Lee's earlier work; they also add to an overall awareness of the GSL program by identifying some of the key characteristics that distinguish repayers from defaulters.

Jerry S. Davis' "Ten Facts About Defaulters In The Guaranteed Student Loan Program" (1985) is an excellent review of his own research and of other findings. Each of the ten facts will not be recited here, but Mr. Davis' paper provides an excellent context for the research and policy analysis discussions about student loans. Perhaps the most useful of all his points is the very first: default rates in the program are not soaring nor are they out of control. As Davis points out, over the past four fiscal years, GSL default rates have stabilized at levels between 10.2% and 9.4%. Among other things this reminds all of us that the vast majority of borrowers are making good on their repayments--a remarkable observation really when one considers the fact that for most students, a loan of this kind is the first form of credit and it is taken out on the somewhat tenuous prospect that a one year, two year, four year or graduate program will lead to a better life, including a more prosperous one financially, in which the loan can then be repaid.

In his "Ten Facts," Davis reiterates another point central to the debate on student loans and default rates: while the default volume has increased (in terms of the dollars required to pay default claims), this should come as no surprise. The numbers of loans now reaching maturity, even in an environment where the default rate is stable, are such that more dollars will be obligated to cover default and other claims as we enter the period when high volume loans of the early 1980's mature.

To summarize, there has been a fair amount of recent research on student loan borrowing which complements more vintage efforts, in which we learn a number of important things. Chiefly, we learn that there are ways to examine the ratio of potential income to potential loan repayments as a means of forecasting manageable debt levels. We also learn, from the experience of past borrowers, that certain groups of students, certain characteristics of borrowers, and the specific terms of repayment have a great deal of influence on the repayment behavior of borrowers. Above all, this research -- both schools of thought, if you will -- makes the strong case for counseling and outreach efforts as a central responsibility for those of us who work with students as they contemplate not so much whether or not to borrow, but how much they should go into debt.

But there are other questions and issues as well. Who are the GSL borrowers? How are student loans used, and what are the perceptions of borrowers, now in repayment, as they reflect upon their experiences? What impact, if any, does educational loan debt have on career, personal, day to day decisions each repayer must face as student loan debts are managed?

These questions of course are not new ones. In many ways they fuel all of the past research on student borrowing. Yet in considering them, NASFAA was struck by an awareness that very

little research had been conducted, on a national basis, on borrowers currently in repayment and good standing. It was this observation, and the hope that borrowers in repayment could tell important things about their experiences that led NASFAA to its loan study, which will be highlighted in the remainder of this paper. In doing so, the attempt will be made to relate findings of NASFAA's research to those of other research efforts briefly reviewed to this point.

THE NASFAA LOAN STUDY

In order to at once introduce the highlights of NASFAA's research and, at the same time, relate these findings to other research, the NASFAA study will be discussed in the context of these particular issues: reported mean debt levels; the role parents play in repaying loans; how repayers rate information sources about loans; the ratio of income to repayment; and, sub-sets of borrowers most impacted by student debt.

In the spring of 1985, NASFAA conducted a mail survey of 3,000 Guaranteed Student Loan borrowers in repayment status. The repayers were selected randomly from the files of twelve GSL agencies. The twelve states represented in the study were carefully selected to provide a reasonable sense of GSL activity nationally. The numbers of records selected in each state reflected that state's overall proportion of borrowers. In this way a random sample of all (2.7 million) borrowers in repayment was simulated, and there is no reason to believe that these borrowers somehow are not representative of the universe. The twelve states who cooperated with us in this survey are: Arizona, California, Colorado, Florida, Illinois, Iowa, Massachusetts, New York, North Carolina, Oregon, Tennessee, and Texas. Of the 3,000 borrowers in the mail survey, 2629 actually had deliverable addresses and 628 responded with useable instruments, for a 23.9% response rate. In addition to the mail survey, the research involved telephone interviews wich an additional 82 borrowers in repayment.

The following is a review of key findings of this research which have particular implications for debt management.

Mean Debt Levels

When GSLs were used for undergraduate study only, the mean GSL debt reported by these borrowers is $4,390. This is higher than the mean debt reported by John Lee when he examined GSL data in 1983, and confirms his own suspicion that his data base (pre-1980) would reflect smaller loans than a more current one. The mean debt reported in NASFAA's research is quite similar to that reported by borrowers in the New York study mentioned earlier. Since the mean year of repayment reported in the NASFAA study is 1982, it can be speculated that more recent borrowers, now

entering the repayment stream, would show even higher debt levels than our own research suggests. In any event, slightly more than 18% of those who borrowed GSLs just for undergraduate study also borrowed a National Direct Student Loan (NDSL). In this case, the average NDSL debt was $2,154. Students using GSL for undergraduate study alone and who attended higher cost private colleges or universities report, as one would expect, a higher mean debt, $5,000. Nearly 80% of borrowers in this study report that GSLs were used for undergraduate schooling only.

GSLs were used for graduate study alone by 13% of the respondents. In this case, the mean loan amount is $7,235. It is significant, however, to note a difference between males and females in this group: males report mean debts of $8,492 while females report a mean debt of $6,230. At the graduate and professional levels, at least, it appears that men are more willing to borrow than women.

GSLs were used at <u>both</u> the undergraduate and graduate levels by 7.5% of these borrowers. Here, the mean debt is $11,386, again with male/female differences of note ($12,864 and $9,209 respectively.)

We will address with some detail in a moment the question of loan repayment as a function of income, however, it is worth mentioning a significant finding of our research here. Differences in salary levels between males and females in this country are well documented. The question of salary discrimination due to gender is often raised in the press, the radio and TV airways, and is even a subject discussed in a recent article appearing in NASFAA's <u>Journal of Student Financial Aid</u>. It comes as no earth-shattering awareness then to perceive a salary differential by gender reported by respondents to our survey. Indeed, the mean gross income reported by male GSL borrowers in repayment is $23,093. That for females is $17,407; a difference of $5,686 per year.

It is significant to consider these average earnings in the context of average debt burdens, however, and here is where we uncover something important. The mean GSL debt for males is $5,776. The mean GSL debt for females is $4,907. The difference, $869 is fairly insignificant. When the average for total loans (not just GSL) is considered, the difference in mean debt burden is nominal: $6,616 for males versus $6,232 for females. Yet the significantly lower earnings of women require them to use a significantly greater proportion of disposable income to manage loan repayments that in fact are quite comparable to their male counterparts. Taken in the context of lifetime earning levels, one is even more struck by the differences in salaries between men and women. An American Council on Education Policy Brief issued in November, 1984, references Census Bureau data for lifetime earnings of men and women. Men who graduated from four year colleges can be expected to earn between $1.2 and $2.75 million dollars in their

lifetimes. Women who graduate from four year colleges are expected to earn between $520 thousand and $1.12 million. The fact that student loans (and GSL in particular) appear to be equally accessible to both men and women gives little solace when one considers the ultimate societal context in which loan repayments exist.

The Role Parents Play In Repaying Loans

Much as the respondents to the New York study report very little help from families in repaying loans, findings in NASFAA's study suggest that for the most part parents do not help. Only 10.8% of the respondents to the NASFAA survey indicate that parents have in the past helped or are now helping to repay loans. Sub-groups identified in the NASFAA study most likely to be helped by parents in this manner are those whose parents earned $50,000 and above per year while the borrower was in school, those who are 25 years old or younger, and those whose parents assisted in meeting college costs. But even in these sub-groups, only 18-19% report that parents are helping to repay loans.

GSL borrowers were also asked to indicate whether or not their debt levels required them to live at home with relatives, in order to make ends meet. On a scale of 1-9, with 1-2 representing no or little effect and 8-9 representing much or great impact, the overall rating by these borrowers to this question was 2.5. Certain groups of borrowers, those whose repayments represent 10% or more of gross income, for example, report a higher degree of impact (a rating of nearly 4 was given by this group.) Other groups showing above average impact were those aged 25 or younger (3.2) and single repayers (3.1).

In addition to these findings, written comments provided voluntarily by respondents and the telephone interviews reveal a fairly consistent expression that GSLs are student loans in the most literal sense: the student borrower has a perceived responsibility of his or her own in meeting postsecondary costs, and the student sees the repayment obligation as an individual responsibility. There is some indication that parents help in repayment when they can afford to, when the borrower is relatively young and has just entered they repayment stream, and to some extent when repayments are a strain. In this regard, nearly 15% of those whose payments are 10% or more of their gross income report having received some help from parents in managing repayments. In this specific finding we see some evidence of parents helping to keep their children in good standing on their loans.

How Repayers Rate Information Sources About Loans

NASFAA was most interested in knowing how these borrowers, in reflecting upon their experiences, rate the sources of information they received about Guaranteed Student Loans. They were asked in the mail survey: "of the information you received about student loans, please rate the sources in priority order." The sources given were: the postsecondary institution, the GSL lender, the state guarantee agency, the Federal government, newspaper or magazine articles, and the secondary school. The overall rankings placed the postsecondary institutions at the top of the scale. On a scale of 1-9, with 1 representing the best source of information, postsecondary institutions were rated 1.9. The second best source was the GSL lender, 2.2, followed by the secondary school, at 3.5. Newspaper or magazine articles were rated fourth (4.1), state guarantee agencies fifth (4.2) and the Federal government sixth (4.5).

Clearly, a great deal of value and importance is attributed to the role played by postsecondary institutions in providing information to student aid recipients. Borrowers in repayment, who rank their schools as the best source of information about loans, give evidence to the success of good counseling and information services. A finding in the New York study alluded to earlier--that borrowers in repayment are nearly twice as likely as defaulters to know when payments would begin--is useful in this regard. There is evidence that the better the information the student receives the better the likelihood that the loan will be repaid. And, the conclusion drawn from the NASFAA loan study is that postsecondary institutions are perceived by borrowers to play the major role, even for a program such as GSL. The GSL of course involves a loan technically not made by the institution but by a commercial lender (at least this is generally the case though some schools act as GSL lenders themselves). This is at once encouraging news for those of us who support this important counseling role for postsecondary institutions, and at the same time, this finding re-states our fundamental challenge in developing the best information tools to satisfy the demands students place upon postsecondary institutions for quality information on the implications of loan burdens.

The Ratio of Income to Repayment

The central question posed by Dwight Horch and others in the late 1970's was "how much is a reasonable level of debt a student should incur given the ultimate income levels the student will realize upon graduation?" This question is still a valid one and led us to examine the experience of GSL borrowers who are managing their repayments. We hoped to provide hard evidence that would reflect upon some of the theoretical work involved in forecasting manageable levels of debt.

In a sense, rather than identifying the uppper limits of debt that could be manageable given certain assumptions as to income, inflation and the like, this research shows what borrowers in fact experience as they manage their loan burdens. These borrowers provide a record of what is, at least in their case, a workable ratio of income to loan repayment.

The reader will recall the Massachusetts aid administrators' 6% of gross income rule, in 1978. In addition, Dwight Horch's ranges of 5.4%, 6.5%, and 12% of after tax income, as outlined in his 1978 paper were briefly remarked upon earlier. In the NASFAA study, the mean response of all respondents, including all loans (respondent and spouse, if applicable) and all incomes (respondent and spouse, if applicable) shows that loan repayments being managed by these borrowers are 5.5% of gross income, and 7.5% of actual take-home pay. At first glance, these percentages seem surprisingly lower than what might have been expected. But, in a general way, they tend to confirm the validity of earlier approaches to forecasting manageable debt levels. The average ratios of repayment to income in the NASFAA study represent the experience of borrowers who are able to manage their payments. In a sense, we capture an idea of what a comfortable ratio may be, knowing that the upper limits can be pushed, and are in fact pushed by significant numbers of borrowers. This observation, and the data supporting it, confirms Dwight Horch's conclusion that in practice, <u>ranges</u> of repayment to income ratios are the case, as the variables of lifestyle, career choice and other factors interact with the demands of student loan repayments.

Ultimately, the mean findings (that 5.5% of gross or 7.5% of take-home represent an average ratio of repayment to income) are valuable only in the measure they provide of those above and below the average. This is especially pertinent since the range, particularly above the mean, is quite large. There are in fact borrowers in our study whose loan repayments exceed 12% of gross income. Just over 7% of all borrowers experience such repayment demands. Borrowers who face monthly repayments of $100 or more per month (more than 20% of the borrowers in our study) typically use over 8% of gross income to manage repayments. Indeed, some borrowers report income to repayment ratios above 17%, and while there are too few in this category to draw meaningful conclusions, it is impressive that no one, absolute ratio level can be set as a universal standard of burden.

On the other hand, it is important to note that significant numbers of borrowers report percentages of repayment to gross income well within what might be called a comfortable range. Just over one third of the borrowers in this survey for instance report that less than 3% of gross income is required to manage loan repayments.

In these findings we observe a major theme which emerges in

the NASFAA loan study: the GSL is a vast program serving a wide range of needs. An appendix table in our statistical volume lists the postsecondary institutions borrowers attended while using GSLs. One is struck by the diversity in the use of GSL by students at proprietary schools, community colleges, high costs privates, and the most prestigious graduate and professional schools. It is in fact difficult to generalize about such a program. However, what does become clear is that certain portions of the GSL population can be identified and deserve more careful scrutiny. Those for instance who must manage loan repayments with percentages of income above the norm require more thorough examination. Those who feel the impact of educational debt more so than others should be studied since their characteristics and the levels of their debt may project future trends. It is with this in mind that we turn to the particular groups of borrowers in repayment who express the greatest effects of student debt on their lives once they've left school.

Sub-sets of Borrowers Most Impacted By Student Debt

Based on NASFAA's research, two major factors seem to define the degree to which loan burden does or does not impact negatively on an individual once repayment has begun. These are when loan payments exceed $100 per month and when repayments are 8% or more of gross income. Approximately 10% of the borrowers participating in the NASFAA study demonstrate these characteristics and it is for these students that the impact of student debt is the highest. The majority (82%) of these borrowers are single. Significantly, 60% are women. Just more than half also borrowed NDSLs. The mean debt, from all loan sources they report is $11,870. The majority, nearly 60%, were enrolled in private colleges or universities. The mean gross income for this sub-set of borrowers is $16,092 and the mean percentage of loan repayment to gross income is 12.8%.

The impact of loan debt was measured in the study by asking borrowers in repayment to rank responses to a variety of questions that sought to determine the effects of loans on personal, day-to-day decisions. Four particular responses separate the sub-set of borrowers paying $100 or more per month, with 8% or more of gross income, from others. (An appendix table provides this data in a more graphic format.)

On a reporting scale of 1-9, with 9 representing the greatest impact and 1 the least, repayers were asked to rank whether or not loan repayments affected their ability to save. The overall ranking of 5 suggests fairly widespread impact. However, the ranking given by those who must repay $100 or more per month from 8% or more of gross income is 7.3. Clearly a much greater impact is expressed by these borrowers. Repayers were asked whether or not their debt caused them to purchase a used car rather than a

new one, or to explore other modes of transportation altogether. Those with $100 per month payments using 8% or more of income provide a 5.6 ranking, as compared to the overall mean of 3.5 Interestingly, those who pay more than $100 per month, but who do so using less than 8% of gross income, report a 2.9 ranking, lower even than the overall mean. With a ranking of 1 representing the least impact, the spread in response by these different groups of borrowers is evident.

Borrowers were asked to rank the degree of difficulty in budgeting and handling monthly loan payments. The overall mean response was 3.4, below the midpoint of 5, where some difficulty is expressed. Borrowers whose payments exceed $100 per month but represent less then 8% of gross income report less difficulty than most borrowers in handling monthly payments. The average ranking for these borrowers is 2.9, below the overall mean. The greatest difficulty, a rating of nearly 5, is experienced by that sub-set of borrowers with loan repayments of $100 or more per month who must use 8% or more from gross income.

Finally, borrowers were asked, from the vantage point of hindsight, to express the degree to which they now wish they had borrowed less while in school. The same pattern emerges. The overall mean is a 3.6 ranking, below the midpoint in the scale (a ranking of 5) where some impact is expressed. Those with payments of $100 or more per month from less then 8% of gross income report a 2.8, closer still to a ranking of 1 where little impact is noted. Those with payments of $100 or more per month from 8% or more of gross income report a 4.9 ranking. Clearly these borrowers are impacted more so by their debts than others, and tend, more than others, to wish they had borrowed less.

The relationship of the level of debt to income is the key. It does not suffice to say that high levels of debt alone (defined here as payments of $100 or more per month) impact negatively on the ability to manage repayments. However, high levels of debt in combination with below average incomes require a greater proportional use of income to manage loan repayments. It is under these conditions that even those who are able to manage their loan repayments feel the greatest strain.

With this in mind it is worth examining the characteristics of borrowers in repayment who must use a much higher percentage of their incomes to maintain payments on their loans than most borrowers do. In the population studied, roughly one out of every ten borrowers must use 10% or more of his or her gross income to stay in good standing. Proportionally, more of these borrowers are women (66%) than is the general population (52%). Most, nearly 75%, are single. Nearly 40% have borrowed NDSL in combination with GSL. Their debt burdens are relatively high, $9,729 on average, and their gross incomes low, $12,048 on average.

These are the repayers who demonstrate the greatest impact of educational loan debt on personal life decisions.

CONCLUSION

How great is the impact of educational loans on the multitude of decisions borrowers must face as they enter and progress through the repayment stream? Does educational loan debt effect such decisions as whether or not to purchase a house, get married, start a family, and pursue the American dream?

These are the primary questions NASFAA sought to address in its loan study. The fact that there are two ways to answer them perhaps best characterizes the research in an overall sense.

The short answer to these questions is a curt, and perhaps somewhat surprising "no." In general terms, student loans do not appear to have as much adverse impact on borrowers in repayment as many of us, perhaps somewhat viscerally, would have thought. With the exception of the degrees to which loan payments affect their ability to save, the average responses expressed by these borrowers in repayment fall well short of the midpoint in the response range for such value judgements as: the degree to which loan debt affects the decision to marry, to start a family, to take a higher paying job rather than one in a preferred field, to postpone health care, to rent instead of purchase a home, or to drive a used car rather than a new one.

And so, if one were to look just at the averages and leave it at that, the conclusion would be that student loans do not have much impact on other important day-to-day decisions faced by borrowers in repayment.

On the other hand, the study documents the vast nature of the GSL program, the fact that as the largest of the Federally sponsored Title IV programs, it serves the most students, who come from diverse socio-economic backgrounds, who attend all types of postsecondary institutions in our wonderfully varied educational system.

There are borrowers in repayment who express significant degrees of impact loan debt is having on their day-to-day lives. The question for all of us to consider is the extent to which these sub-sets of borrowers represent future trends that may soon make their characteristics more the norm rather than the exception. Even aside from this rather speculative thought, we must address the difficulties of those students today who will emerge from their academic studies with debt levels and other characteristics similar to those who express the burden of loan repayments in this research.

There are clear implications of this research, especially for those who are concerned about debt management as a counseling technique. The role of the postsecondary institution is essential in the on-going effort to better educate students as to the potential impact of loan debt. This counseling role and its challenge should also be shared by others involved in the student aid delivery system. As students are continually faced with greater and greater reliance on loans to fulfill postsecondary goals, those involved in the loan process must continue to develop and expand the tools which assist our students in making responsible decisions and which assist in developing responsible policies that will affect generations of students yet to come.

Two additional observations make for a fitting conclusion. First, the data from NASFAA's study provides a useful baseline, but it may be that borrowers just now entering the repayment stream will reflect larger debt burdens than those reported here. There is some evidence to suggest this may be the case. The median year in which borrowers in NASFAA's study entered repayment is 1982. Many feel that 1983 marks the watershed year when the greatest number of high volume borrowers began entering the repayment period. In any event, since 1982, the numbers of loans in maturity are increasing steadily and in quantum leaps each year. Within a few years, current dollars in repayment are expected to double. It may very well be that borrowers more recently in repayment will report different degrees of impact loan debt has, given the realities they face.

Finally, while it has not been emphasized to this point, a particular finding of NASFAA's research may be the most significant of all. Without question the highest ranked observation made by borrowers in repayment, as they reflected upon their experience, is that student loans were essential in enabling them to enroll. The second highest ranking was attributed to the observation that loans permitted some level of choice in selecting a postsecondary institution. The vast majority of students who borrow make good on their obligation to repay. They are grateful for the opportunity presented to them, and they give evidence in their response to this survey that the system is working as it should. It is our task to learn from them, and to learn from other research in the field, how to keep the system working and how to make it work even better.

The Impact Of Loan Debt: A Three-Way Comparison

	All Respondents	$100 Monthly Repayers: Less Than 8% of Gross Income	$100 Monthly Repayers: 8%-up of Gross Income
Percentage/Women	56.1	47.6	60.0
Percentage/Single	57.7	53.5	81.7
Percentage who indicate that employment played a major role (20% or more) in meeting college costs	44.5	47.6	21.7
Percentage - Also Using NDSL Loan(s)	20.6	35.7	51.7
Mean NDSL Loan(s)	$2,619	$3,203	$3,209
Mean GSL Loan(s)	$5,288	$8,467	$8,495
Percentage - Also Borrowing Loans from Parents	9.0	8.3	20.0
Mean - All Loans	$6,488	$10,440	$11,870
Percentage - First/Only Enrollment at Private College or University	37.5	51.3	59.6
Mean Years Used Loans	2.59	3.53	3.74
		Rating - (1 to 9)	
• How Essential Were Loans	6.90	7.14	7.88
• Loans Permitted Choice	6.02	6.35	6.47
• Now Wished Less Was Borrowed	3.65	2.83	4.92
• Difficulty of Handling Repayments	3.44	2.96	4.98
• Loan Debt Caused Purchase of Used Car	3.51	2.96	5.62
• Loan Debt Effects Ability To Regularly Save	5.01	4.93	7.28
• $ Annual Loan Repayments	$987	$1,642	$1,925
• Borrower Gross Income	$20,007	$26,592	$16,092
• Borrower Take-Home Income	$13,884	$17,892	$12,192
• Mean Percentage Loan Repayments To Gross Income	5.51	5.77	12.77
• Mean Percentage Loan Repayments To Take-Home Income	7.49	8.53	16.86

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Long-term Implications of Student Borrowing

a commentary by

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Policymakers frequently express concern that insufficient data are available to answer many important questions about the effects of loans and borrowing on student and borrower behavior. I frequently experience a heightened version of their frustration because it is my responsibility to provide policymakers with the data they need.

Part of the problem in supplying answers to policy questions is that we lack the theoretical bases to guide our research. Another problem is that the major loan program, the Guaranteed Student Loan Program (GSL), is so complex, serves so many different kinds of students and institutions in so many situations, and changes so rapidly that it is difficult to conduct research whose results can be generalized to many populations or circumstances. As I think of changes in the GSL program I am reminded of the ancient saying that you cannot stick your hand twice into the same river. The "GSLP river" is like the Colorado River surging through the Grand Canyon, not like the Susquehanna River that meanders through central Pennsylvania.

In spite of these problems, we can and do know a great deal about loan programs and their effects. We know these things from examining several kinds of research on various topics and looking at their results which point toward the same general conclusions. Like most researchers, I long for comprehensive studies with valid and reliable statistics which confirm or deny researchers' hypotheses and policymakers' speculations. But if such studies are unavailable, I will settle for what Dan Rather described as a journalist's proof of the reality or truth of a situation: "If it looks like a duck, walks like a duck, and quacks like a duck, you can be pretty sure you have a duck."

The NASFAA study of borrowers in repayment that Mr. Martin has described is another good piece of research that points us toward the same general conclusions of other data, research, and experience. (Experience with a program's effects is often as helpful as pure research.) Let me briefly highlight some of the things we found in examining our PHEAA data which also appear in the NASFAA study data. (I want you to be as confident as I am that we really have a duck here.)

The NASFAA study found that, on the average, educational loan debt has few negative effects on borrower decisions. This doesn t surprise me. Our 1982 follow-up study of 1981 alumni of Pennsylvania institutions found that: (1) only a few borrowers were experiencing loan repayment burdens; (2) there was no relationship between marital statuses and borrowing rates or levels; (3) alumni who had gone to graduate school or were planning on advanced degrees had higher, not lower, debt levels than others who had completed baccalaureate degrees; (4) there were no significant differences in first year earnings of borrowers and non-borrowers employed in similar occupations, suggesting that borrowers probably did not obtain higher-paying jobs to repay their loans; and (5) GSLP debt levels did vary by occupations, with engineers having higher debt levels and marketing and sales personnel having lower debt levels -- but engineers earned more and marketing/sales personnel earned less, so their relative repayment situations were similar.

In short, we found no statistical evidence that loan debt negatively affected borrowers' marital choices, plans for further education, or occupational choices. This is not to say that some Pennsylvania borrowers do not experience some negative effects, only that the statistical evidence of these negative effects is not readily apparent.

Now I can almost hear some of you thinking, "Well, that was then and this is now. Borrowing has increased significantly in recent years, so surely more borrowers are experiencing debt levels that are burdensome." My response to this assertion is to describe some data from two sources, PHEAA and the Illinois State Scholarship Commission, concerning increases in borrowing. In the first place, annual growth in the GSLP is more a function of more students accepting loans than a function of similar numbers of students accepting much more debt. In Pennsylvania, between 1980-81 and 1983-84, the number of undergraduates leaving school with GSLP loan debt grew by 46 percent. Between federal fiscal year (FFY) 1982 and FFY 1985, the number of undergraduates with GSLP loan debt in Illinois increased by 78 percent. But in both states, over half the increased numbers of borrowers were enrolled at less-than-four-year institutions, where loan debts are much less.

Between 1980-81 and 1983-84, the average GSLP debt levels of undergraduate Pennsylvanians leaving four-year colleges grew by about $1,600. In Illinois, between FFY 1982 and FFY 1985, the average debt grew by only $730. Among less-than-four-year institutions' students in Pennsylvania, the average debt level grew by $590. In Illinois, for the same group, the average grew by only $50, with average debt levels actually decreasing among two-year college students. So average debt levels apparently are growing but they are not soaring as some of you might expect from looking at loan program growth. My point here is that the NASFAA research findings of borrower experience of two or three years ago are not as out-of-date as you might think.

What may be more important than the growth in average debt levels or aggregate numbers of borrowers is that the number of borrowers with larger debt levels is increasing. In 1980-81, only slightly over 600 Pennsylvania undergraduates left school owing more than $7,500 in GSLP debt. They represented about one percent of the borrowers in the cohort. By 1983-84, about 12,400 undergraduate borrowers, 12.1 percent of the cohort, left school owing this much.

The NASFAA research showed that borrowers whose monthly loan payments were $100 or more and represented more than eight percent of their gross income had difficulties in making their payments. For these 12,400 Pennsylvanians, the median monthly payment was about $110. This means that borrowers who earned less than $16,500 per year would have some difficulty making their payments. But not all of these 12,400 borrowers would have earned this little because over 90 percent were graduates of four-year colleges. So, in general, even among these borrowers with admittedly high loan debt levels, we would not expect to find many with loan debt burdens.

I have danced around the question of how much loan debt represents a burden for various borrowers, because I do not know the answer to that question. I will gladly leave the answer to others at this conference. However, my own research and application of others' criteria of debt burden, my reading of the NASFAA study, and a careful look at trends in GSLP borrowing in recent years leads me to speculate that today no more than one out of ten undergraduate borrowers who are repaying their loans have some repayment burdens. Because research has shown that lack of jobs and income is the primary reason GSLP borrowers default on their loans, I would hypothesize that virtually all the defaulted borrowers had or have repayment burdens. But their "burdens" are more a function of the fact that they borrowed at all and then could not find employment, rather than a function of amounts they borrowed.

As I prepared these remarks, it occurred to me that one readily available source of data on borrowers who might be having loan burden problems would be information collected from borrowers whose cases are referred to guaranty agencies for "pre-claims assistance. I intend to pursue this research possibility at PHEAA as soon as I can do so.

Let me now turn to some remarks which many of you may consider heresy. Many of us have used debt burden and increasing loan program volumes to seek greater support for grant programs. My notion is that this approach has not been very fruitful. One reason our arguments may have gone unheeded is that we cannot demonstrate conclusively that great numbers of students are in fact faced with debt burdens. Moreover, we have little evidence that suggests that larger debt levels have any relationship to default probabilities. I believe defaults are of far greater concern to far more policymakers than are debt burdens.

Some of us have tried to address the problem of "appropriate balance" among grants, loans, and work-study aid with accounts of growth in loan debt levels and burdens. But here again we lack the data to make the case that loans are somehow not helping students achieve the tripartite financial aid goals of access, choice, and retention. Perhaps if we could demonstrate that the necessity to borrow (or to borrow larger amounts) has some negative impact on access, choice, or retention then we might be able to persuade policymakers that increasing reliance on loans to meet the costs of higher education is not an efficacious policy. I believe loan debt burden arguments will not succeed until we demonstrate that reliance on loan aid somehow hinders rather than helps achieve financial aid goals (or until we can demonstrate that loan debt burdens add significantly to loan default costs.)

We frequently hear arguments that lower-income students are denied access to college or postsecondary education because they do not want to accept loans to pay for their costs of education. I have yet to see any statistical proof of this assertion. When I looked at the GSLP debt levels of Pennsylvania undergraduates who left school in 1983-84 with GSLP debts, I found little difference in cumulative debt levels by family incomes within the same types of institutions. Debt levels of higher-income undergraduates were generally greater than those of lower-income undergraduates, because the former were more likely to attend higher cost, four-year schools. But when I controlled for types of institutions attended, I found only slight relationships between higher family incomes and larger cumulative loan debts. This suggests to me that low-income students who choose to attend college are no more nor no less willing to accept loans to meet their costs. I admit that the data say nothing about the reluctance to accept loans of lower-income students who choose not to enroll. But my point is that the available data do not support the argument that lower-income students are reluctant to accept loans to meet their costs of education.

Mr. Martin has noted the importance of counseling students on borrowing and managing debt levels. I agree that better loan counseling and financial aid information in general are needed from schools, lenders, and guaranty agencies. We have research and experiential evidence that better counseling, and more of it, helps to reduce defaults and handle repayment problems. But I believe (another heretical thought) that improved counseling and information will do little to reduce debt burdens or increase repayment rates.

Counseling will not reduce significantly student debt burdens because it is increasingly necessary to borrow to meet college costs and, as long as no other financial resources are available to them, students will continue to borrow what they need and can get. Counseling may convince students to borrow, for example,

$1,500 rather than $2,000 or $2,500 for some year of school but the reduction in monthly payments that are a consequence of such a decision does little to reduce future loan repayment burdens.

I do not expect loan counseling to reduce default rates significantly because unawareness of loan obligations and terms is not the primary reason borrowers default. Not having a job or sufficient income to make loan payments is.

That I do not expect counseling to have much of an effect in these areas does not mean I am against more and better financial aid counseling. We should provide better counseling and better financial aid information because it is ethical to provide students and borrowers with as much help and advice as possible. Financial aid is a helping profession and counseling is one way to help. I would simply ask you not to have great expectations that counseling will reduce greatly either loan debts or default rates.

Counseling of another kind may do more to reduce borrower problems than will financial aid counseling. If institutions could and would do more to help students learn job-seeking skills and help them actually find jobs after school, loan repayment problems might be reduced significantly. I do not mean to invalidate the current efforts of college placement offices, but our Pennsylvania alumni survey showed that only 18 percent of the alumni got their jobs through the help of campus officials. I suspect the record in other states is not much different. If borrowers have jobs when their loans come due for repayment and if the jobs they have are decent paying ones, many of their loan repayment problems will be alleviated.

I believe I feel and share the concern of most of you that too many students are having to borrow too much money to meet their costs of education. But my considerations on what is "too many" or "too much" are based on a philosophical rather than an empirical viewpoint. Ideally, I would have higher education as "free" to students and families as elementary and secondary education. But this is not a practical or even realistic viewpoint. We live in a fiscally and politically conservative period which devalues public support of common goods or, if you will, the "commonwealth," and emphasizes individual payment and sacrifice for benefits that currently are seen as accruing primarily to individuals. Emphasis on loans as the primary means of student and family financing of postsecondary education reflects this conservatism.

The NASFAA study provides us with some good baseline data on the effects of loans on borrowers lives and decisions as they continue to pay for their education long after leaving school. We will need more such studies to trace these effects and changes in them, because more students are borrowing more money to pay for their education. I hope that more such studies will be done. But

my greater hope is that some effort will be devoted to studying the broader effects of what might be called a "loan financed higher education system" on student and family access, choice, and retention decisions.

I think the majority of Americans still believe that having a large percentage of our citizens attend postsecondary education represents a valuable common good to society. But until we demonstrate that the necessity of paying for this education via loans somehow reduces rather than enhances the numbers of citizens who participate in higher education, we will maintain our loan financed system. That it is difficult for some borrowers to pay for their education through loans is not sufficient justification to many, if not most, public policymakers to reduce reliance on loans and increase support for other forms of aid.

Long-term Implications of Student Borrowing

a commentary by

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This is a topic whose time has come, as evidenced by the growing number of professional conference sessions dealing with debt counseling, and default prevention. Research such as was described today is very helpful to aid administrators in designing and evaluating awarding policies, in developing default prevention programs, and in beginning debt counseling programs.

I would first like to spend a few minutes commenting more specifically on Dennis' remarks from an aid administrator's perspective. Then I will share with you the results of a survey recently completed at my institution. I think you will find the results very interesting.

Findings from various research projects described today confirm that students are less likely to default if they persist beyond their freshman year. This finding is important to aid administrators, since it provides solid justification for institutional awarding policies to limit freshman borrowing, especially for high risk students. At my institution, our packaging policy is to award higher levels of grant dollars to first and second year students admitted through our special admissions program, which includes economically disadvantaged and minority students. In addition, we try to encourage these students to take a reasonable amount of work-study, especially during their freshman year, rather than loan. This policy has become increasingly more difficult to continue as grant dollars have become inadequate to meet the needs of all of our applicants. Research findings such as Dennis presented will be helpful to us in justifying our awarding policies to our faculty and student advisory committee.

Related to the question of awarding policies, the NASFAA study points out what we already know -- that men can expect to earn significantly more after graduation and over the course of a lifetime than can women. This finding raises a new question for me. Should aid administrators consider targeting more grant and less loan dollars to women, based on the theory that men will find it easier to repay higher debt levels than women? Or would we find ourselves in a situation where we could be accused of reverse gender discrimination, should we decide to pursue such a policy? At the very least, it seems, we should be working with our women applicants to provide them with some hard data about potential earnings, so that women can decide for themselves how much debt they wish to assume.

Regarding the issue of the role of postsecondary institutions in producing information for GSL applicants, the NASFAA study found that students considered information from their institutions to be the most important and the most helpful. The NASFAA study and other related research also confirmed the importance of loan counseling to students.

I feel that many postsecondary institutions have not yet bought into the concept that they play a primary role in the GSL program. Partly this may be because they are unable to keep up with the paper processing part of the program, much less think about doing loan counseling. As we all know, there has never been an institutional administrative allowance for this program. The loan volume has skyrocketed since 1980, and at many schools loan applications are processed by work-study students because staff increases have not been proportional to loan volume increases. For such an institution, the ability to provide counseling or even to produce good informational brochures is probably impossible. To compound the problem, these institutions are often the institutions with the highest risk students and, of course, the highest institutional default rates.

I think we need to be creative in our attempt to help such institutions. Probably we need to turn to our guarantee agencies and our professional associations for help in this area. I would like to describe a project that the California Guarantee Agency has undertaken as part of its default prevention program, which I think is a good model for us to consider as we make our recommendations in our small discussion groups today. CELP is producing a series of 15 loan management brochures for GSL borrowers which will be distributed free of charge to institutions and lenders. Using the theme "Accept a Loan and Accept Responsibility," each brochure takes advantage of critical borrower communication points during the life of a GSL. The brochures are designed for current and prospective borrowers and loan counseling staff. Combinations of the brochures can be assembled and provided for entrance or exit interviews, at check release time, and during counseling sessions. One area that students and aid administrators alike find very confusing is that of the role of secondary markets and servicers in the loan process, and one of the brochures will focus on this topic alone. We in California are excited about this project and hope that it will provide all borrowers, regardless of the institution at which they are enrolled, the same access to important borrower information. Lois McNally is a participant at this meeting and can provide you with more specifics about the CELP program.

In Dennis' conclusion he states that for <u>the majority</u> of students, educational loan debt does not effect such decisions as whether or not to purchase a house, get married, or start a family. Jerry confirms this finding with research done in Pennsylvania and Illinois. In preparing for this colloquium, I

tried to get at this same question from a less global and relatively simple point-of-view.

To keep you in suspense about the results, I will first give you a little information on the methodology we used in conducting our survey. With the help of Bill Van Dusen and the College Scholarship Service, I surveyed two classes of UC Santa Cruz graduates -- the class of 1979 and the class of 1984. We selected these classes because of the significant difference in borrowing levels that existed at UCSC during those two years and the potential difference in survey outcome. In 1978-79, 1641 UCSC students borrowed a total of $1,563,000. Their average annual indebtedness was only $952. In 1983-84 2107 students borrowed a total of $4,564,000. Their average annual indebtedness was $2166. This was potentially from a combination of Guaranteed Student Loans, National Direct Student Loans, and University Loans. Our total GSL volume in 1978-79 was only $421,000. Our GSL volume in 83-84 had jumped to $3,277,000.

To do our survey, we randomly selected from each class 100 graduates who had borrowed during their years at UCSC, 100 graduates who had received aid but no loan, and 100 graduates who had received no aid. Our grouping was based solely on aid received at UCSC and did not take into account aid or loans received at other institutions. Our "borrowers" may have included both students in repayment and those in default, since our selection criteria ignored repayment status.

We also decided to eliminate one institutional loan fund from consideration, since most undergraduates prior to 1980 were required to borrow from this program as a condition of receiving other types of institutional aid. The loan was only $300 per year, and students received the loan beginning in their sophomore year. Therefore, most students were required to repay between $900 and $1200 to this fund, in addition to any other long-term student loans they might have received. Students in the class of 1979 who had received no other long-term loans but had received money from this fund were classified as students who had received aid but no loan. Fortunately for all concerned, the University eliminated this program in 1980, so most students in the class of 1984 would not have been effected by this program.

In doing our survey we did not ask students whether they believed that making loan repayments had effected their postgraduation choices. Rather we attempted to infer cause and effect relationships from student responses to our very direct and objective questions about what they had done after graduation and what their current status was.

While the original analysis of the results of the survey appeared to show some differences between the post-graduation behavior of borrowers and non-borrowers, when tests of statistical significance were applied to the data the differences proved to be insignificant. We did not observe statistically significant differences between borrower and non-borrowers in becoming married, having children, attending graduate school, purchasing a home, or owning a car. Both borrowers and non-borrowers appeared to participate in each of these post-graduation activities at approximately the same rate.

All things considered, borrowing does not appear to have been a negative experience. Only 18 percent of the Class of 1979 respondents and 17 percent of the Class of 1984 respondents said that if they started over again they would not borrow to finance their undergraduate educations at UCSC.

While these results are encouraging, and support the conclusions of the NASFAA study, it must be remembered that our study was a very small sample of borrowers from one specific institution. It may be that UC Santa Cruz students behave differently than do students at other institutions, and that if our study were replicated elsewhere the results might be different. Clearly the area of post-graduation behavior of borrowers is one which requires continuing research.

We need to do a better job of developing effective awarding policies, counseling services, and information dissemination programs and will only be able to do so if we are familiar with the pertinent research.

Determining Student Capacity to Borrow

by

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It seems that -- rightly or wrongly -- student loan financing issues dominate the financial aid scene today. The issues are large and complex, and worthy of the special focus of this special colloquium.

In reviewing the proceedings of other CSS Colloquia, I am at once impressed with the timeliness of topics chosen in the past, the seeming historical impact of those proceedings on public policy, and the ambivalence of past speakers about the role of student loan programs.

The College Board is no stranger to student loan issues, for not only have they been addressed in past CSS Colloquia, but also they were the subject of a 1977 College Board monograph entitled, Student Loans: Problems and Policy Alternatives, edited by Lois Rice. In that publication, in an article entitled "How We Got Here from There - A Personal Reminiscence of the Early Days", Jack Morse wrote:

> "I have long believed that the basic federal loan program was written by members of Congress who did not really believe in loans, enacted by a Congress the majority of whose members did not believe in federal aid to education, and administered by a Secretary of Health, Education, and Welfare who, at the outset at least, did not believe that students would borrow."

Now many members of Congress wish students did not have to borrow at all for their education, a budget-minded Administration wishes they would not, business-minded lenders are glad they do, and students, only dimly aware of the repayment legacy they face, anxiously wonder what it all means.

In those early days of federal student aid program formation, concerns were expressed that even if a federal guaranteed student loan program was instituted, students would be unwilling to borrow from it. After twenty years, we have come full circle: now the concern is that students may be borrowing too much.

Since the early 1970s, with the significant decline in federal fellowship support, student loan programs have become a vital source of support for the nation's graduate and professional students, particularly at private universities where costs are highest. Because of their students' growing dependence of student credit mechanisms, graduate and professional financial aid administrators have been concerned since the late 1970s about the implications of borrowing, how to tailor loan program terms to better suit the ability of students to repay their loans, and how to help students better understand the implications and obligations of borrowing.

But now, student loan counseling and debt management are also of concern to the undergraduate community. The reasons for the undergraduate financial aid community's growing concern about debt counseling and management are not difficult to understand, when viewed in the context of the budget austerity measures imposed by the Reagan administration. Since 1980, the value of federal grant dollars for undergraduates has been eroded by inflation, while the costs of education have continued to escalate. Both undergraduate schools and students have turned to student credit mechanisms to make up the difference, with the result that undergraduate borrowing is on the increase, in some states by as much as 8-10 percent per year. And that trend is likely to continue, unless student loan program terms and conditions are made so unfavorable as to discourage willing lenders and needy students from participating in the program, or unless colleges and universities lose their appetites for tuition increases that exceed nominal inflationary increases.

And so, with this as background, permit me to turn our attention to what seem to me to be some of the essential ingredients of effective student debt counseling.

Ingredients of Student Loan Counseling

It seems to me that recipe for effective student loan counseling calls for at least two basic ingredients:

- the first is really a precursor to counseling, and that is a resolve on the part of federal, state, and institutional policymakers to develop loan programs with terms and conditions that do not overburden students with debt.

- the second ingredient is a commitment of time by financial aid administrators and borrowers to engage in the debt counseling process, not when the student is about to leave school, but rather at the outset of borrowing, and periodically during the in-school period, as the students are incurring additional debt.

It also seems to me that effective debt counseling should involve three essential goals:

1. To educate the student about the various loan programs that are available and about the terms, conditions, and repayment obligations of the various student loan programs.

2. To educate the student about the costs of borrowing from alternative loan programs and to weigh the alternatives in terms of the student's needs, preferences, and new awareness gained through the counseling process.

3. To help the student assess the extent to which educational debt may be burdensome in relation to future income, and what that may mean to the student in terms of future life choices.

These goals may be achieved in a variety of ways -- through the development publications that deal with debt issues directly, by conducting interviews, and by using the power of the computer to quantifying the costs and impact of alternative borrowing strategies, thus helping the student to become a sophisticated consumer of educational loans.

The Graduate and Professional Financial Aid Council, for example, undertakes four activities aimed at facilitating student debt counseling, broadly defined.

- First, as part of the GAPSFAS application, students are asked to document their cumulative educational debt for the GSL, NDSL, ALAS, HEAL, and HPSL programs as well as their spouse's educational indebtedness. Based on these student-reported data, GAPSFAS computes estimated monthly repayments for each loan and reports this information back to the student's school.

- Second, GAPSFAS sends to every student in its population, a publication entitled "Borrowing for Education" which describes the major federal guaranteed student loan programs, with sample repayment charts.

- Third, GAPFAC periodically funds research into debt management issues, as well as monitoring overall trends in indebtedness of students in the various disciplines.

- And most recently, GAPFAC funded the development of an interactive microcomputer system called the Student Loan Counselor, which is being made available to colleges and universities for use in counseling undergraduate or graduate/professional students.

To illustrate some of the principles of student loan counseling, I would like to show you one of the outcomes of this interactive system for a prototypical private college senior. This example is for a student who plans to graduate in June 1986 from a private university, who has borrowed $8,600 and who plans a career in business, with a starting income of $18,800. (in 1985 dollars). A summary of repayment information for this illustrative student appears below.

Table 1. REPAYMENT SUMMARY: "Typical" June 1986 Private College Graduate

GUARANTEED STUDENT LOAN PROGRAM

INTEREST RATE	REPAYMENTS START	REPAYMENTS END	MONTHLY PAYMENT	AMOUNT BORROWED	TOTAL INTEREST	TOTAL PAYMENTS
9.000	1 87	12 96	$109	$8,600	$4,473	$13,073

The table above, standard output from the Student Loan Counselor system, presents basic consumer information about the student's loans: annual percentage interest rate, when repayments for each loan begin and end, the monthly repayment, principal amount borrowed, total interest to be paid, and total amount to be repaid.

To my way of thinking, while it is important to provide this essential information to the student, such information by itself is insufficient and may cause unnecessary anxiety to students, because there is no context for its interpretation. To provide context, effective debt counseling should attempt to measure the student's potential ability to discharge the debt in the future. To provide such context, the Student Loan Counselor system estimates the student's income during the repayment period, using data entered by the student (or financial aid counselor) into the system for the student's intended occupation. The result is a burden analysis, similar to that shown for the our "typical" private college graduate.

Table 2. Loan Burden Analysis For a June 1986 Private College Graduate

YEAR	ANNUAL INCOME	MONTHLY INCOME	REPAY/MONTH	PAYMTS AS % OF INCOME
1987	$20727	1727	109	6.3
1988	22199	1850	109	5.9
1989	23775	1981	109	5.5
1990	25463	2122	109	5.1
1991	27271	2273	109	4.7
1992	29207	2434	109	4.5
1993	31280	2607	109	4.1
1994	33501	2792	109	3.9
1995	35880	2990	109	3.6
1996	38427	3202	109	3.4

Starting income = $18,000 in 1985 dollars.
Inflation = 5%.
Income growth rate = 2%.

The chart above shows the student's income projected to start in 1987 at $20,727 when repayments begin, and to rise to $38,427 in 1996, the last repayment year. The second column translates annual gross income into monthly income; the third column shows the consolidated monthly repayment for each year, and the last column shows monthly repayments expressed as a percentage of monthly income. In this example, repayments represent about 6.3 percent of our "typical" private college graduate's starting income, and decline to about 3.4 percent of the student's income during the last repayment year (1996).

Debt Burden

What constitutes a manageable debt level? What is a reasonable percentage of future income to devote to the discharge of student debt?

There appears to be no universally accepted answer to these questions. As noted in one study (Horch, 1978), there seems to be general agreement in the student debt literature with the observation that the relevant measure of the oppressiveness of a debt is the relation between future payments and future income (Dresch and Johnstone, 1972). Earlier definitions of tolerable educational indebtedness differ, however. To Daniere (1969), a tolerable educational loan was one that could be retired through payments equaling 6 percent of before-tax or 7.5 percent of

after-tax income. At the extreme, Hartman (1971) defined a manageable educational loan as one that could be retired with payments of up to 15 percent of the college graduates' starting gross income over a 10-year amortization period.

In my 1984 study, Student Loan Limits, I defined a loan repayment as one where annual repayments equaled the "other consumption" component at each of the three Bureau of Labor Statistics consumption budget standards (lower, intermediate, higher) for a family of four. The estimated consumption budgets for 1983 ranged from $14,304 at the lower budget standard to $29,833 at the higher standard. At each standard, the consumption budgets provide for food, housing, transportation, clothing, personal care, medical care, and other items (gifts, contributions, insurance, and other consumption expenses, such as for reading, recreation, education, and miscellaneous expenses). The BLS standards do not imply that individual families at specified levels actually allocate their incomes in a manner consistent with the components of the standards. To an extent, depending on the budget component, families have some discretion in how they spend their incomes.

The method used in that study assumed that a manageable annual student loan repayment was one that did not exceed the largely discretionary "other consumption" component at each of the three budget standards. Using this definition, in constant 1983 dollars, an annual repayment of $823 was considered to be manageable at the lower standard, $1,540 at the intermediate standard, and $2,697 at the higher standard. This definition implied that the following monthly student loan repayments were manageable in 1983 dollars:

- $68.58 per month for People whose after-tax annual income was $14,304 (lower standard)
- $128.33 per month for people whose after-tax annual income was $21,290 (intermediate standard)
- $224.75 per month for people whose after-tax annual income was $29,833 (higher standard)

Table 3. BLS Annual Consumption Budget Standards for an Urban Family of Four Updated for Inflation from 1967 to 1983

1967	BLS Lower Standard	BLS Intermediate Standard	BLS Higher Standard
Total Family Consumption	$ 4,862	$ 7,221	$ 9,963
Other Costs	265	410	730
Adjusted Consumption Budget	5,127	7,631	10,693
Other Consumption(a)	295	552	967
Other Consumption as Percent of Adjusted Consumption Budget	5.75%	7.2%	9.0%
1983(b)			
Adjusted Consumption Budget	$14,304	$21,290	$29,833
Other Consumption	823	1,540	2,697

a Included in the "other consumption" category were expenses for reading, recreation, education, alcoholic beverages, and miscellaneous expenses.

b Figures for 1983 were derived by inflating corresponding 1967 amounts for the rise in the Consumer Price Index (U/XI), estimated to be about 2.79 as of December 1983.

The data in Table 3 for 1983 were used to construct a rate schedule that, at each of the three budget standards, yielded annual student loan repayments equal to the amount of the "other consumption" component. For example, the "other consumption" component (or manageable repayment) represented about 5.75 percent of the lower budget standard, or $823. At the intermediate standard, it was $1,540 (5.75 percent from the lower standard plus 10.26 percent of the difference between the intermediate and lower standards).

Wabnick and Goggin (1981) and Hartle and Wabnick (1983) approached the question of student loan burden from yet another perspective. The Wabnick loan burden model did not attempt to define a manageable level of student indebtedness. Rather, it simply converted median debt levels of students into equal monthly installment payments, and then transformed annual student loan repayments into a percentage of discretionary income using median income profiles for corresponding occupations.

The Student Loan Counselor system follows essentially the same methodology as the Wabnick model; that is, no assumptions are built into the system about what constitutes a manageable or burdensome loan. Rather, the Counselor system converts principal amounts borrowed into equal monthly installment payments, projects an income stream, and relates repayments to income in percentage terms. It is at this point that it is critical for human interaction between the financial aid counselor and the student, to help the student assess the impact of debt repayment. While there is no single answer as to what constitutes a manageable loan (this will depend on the student's willingness to forego future consumption for past educational expenses) there are rules of thumb. Commercial lenders, for example, become reluctant to lend when, among other things, an individual's debt to after-tax income ratio exceeds 35-40 percent. That is a composite figure, and includes debt service for home mortgages as well as for other consumer financing, such as automobile loans, credit card financing and so forth. Federal Reserve Board statistics fairly consistently reveal a consumer debt to gross income ratio of 12-15 percent; that is, not counting home mortgage debt service, the typical American consumer encumbers between 12 and 15 percent of gross income for consumer debt service.

While I cannot say with any certainty how much any given student can borrow and comfortably repay, I know how I would advise my college-bound daughter on the matter of borrowing for her education. My advice would be simple: encumber no more than 5-7.5 percent of income during that crucial first repayment year. In other words, my advice would be to use roughly one-third to one-half of her future consumer debt service capacity to discharge educational loans, leaving in reserve the balance for future needs, such as automobile financing, and other consumer durables. Does this mean that a student whose loans encumber more than 7.5 percent of starting income will surely default? By no means. However, conventional wisdom suggests that students should proceed with caution if their educational debts are likely to encumber more than 10-15 percent of starting income.

Undergraduate Overborrowing

The Student Loan Counselor was designed to assist financial aid administrators to better advise individual students. It may also be used as as policy analysis tool. For example, it can be used to gain insight into the extent to which a given group or subgroup of students may be overborrowing. Because the focus of this Colloquium is on undergraduate borrowing and debt counseling, it seemed to me that it may be of interest to explore the debt to income ratio of typical college senior borrowers. Toward that end, average GSL debt figures were assembled for college seniors in the state of Pennsylvania and were matched with average starting incomes drawn from the Student Loan Counselor's national starting income data base.

In order to evaluate the implications of these undergraduate borrowing levels, I ran several simulations using the Student Loan Counselor to investigate the burden profiles of public and private college seniors in the state of Pennsylvania. For these analyses, I chose three popular undergraduate fields: business, education, and engineering. Starting incomes and cumulative GSL debts for these simulations are shown in Tables 4 and 5 below, and results of the simulations are presented in the charts on the next page. The first chart presents estimated loan burden profiles for Pennsylvania public college and university students; the second presents similar data for private college and university student with average borrowings and earnings.

Table 4. Average Cumulative GSL Debt of Pennsylvania College Seniors

Field of Study	Type of Institution			
	Private		Public	
	1983-84	1985-86 (Est.)	1983-84	1985-86 (Est.)
Business	$7,201	$8,600	$6,823	$8,100
Education	6,791	8,100	6,529	7,750
Engineering	7,889	9,400	6,961	8,270

Source for 1983-84: Pennsylvania Higher Education Assistance Authority

1985-86 figures are author's estimates

Table 5. Estimated Starting Incomes for June 1986 College Graduates in Constant 1985 Dollars

Occupation	Est. Starting Income
Business	$26,100
Education	$13,500
Engineering	$26,100

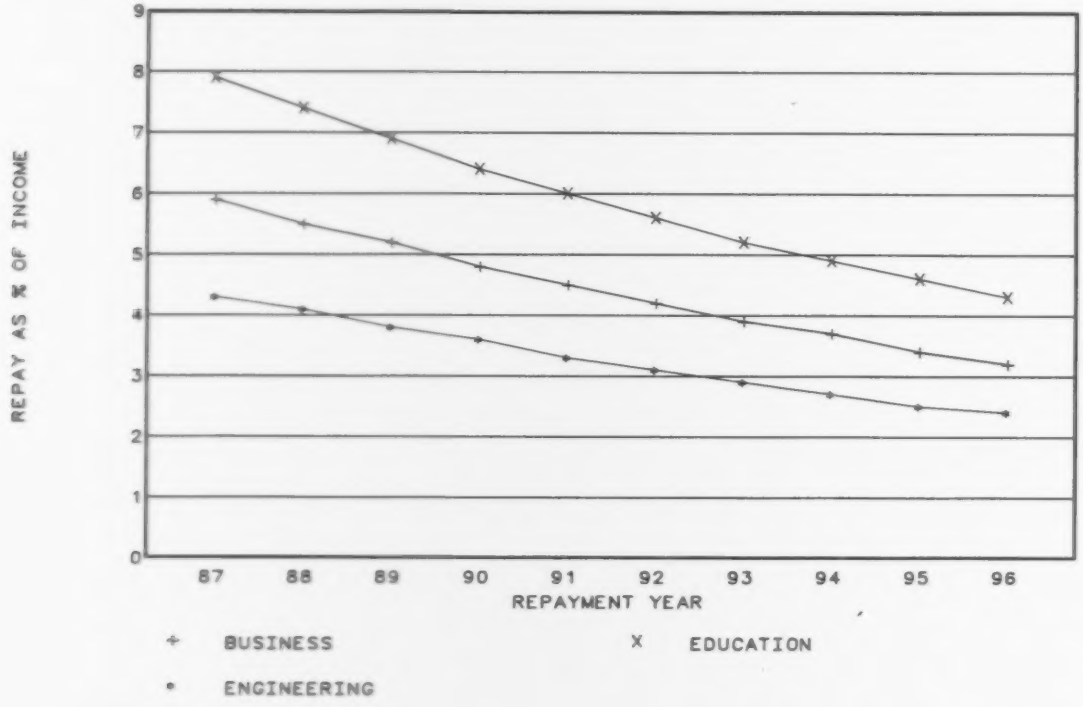
Source: Student Loan Counselor system.

These data suggest that student loan repayments as a percentage of income for a typical borrower earning at the median range from about 2.3 percent to 8.3 percent of gross income, depending on the occupation and the repayment year. Note that, within each occupation, repayments as a percentage of income decline during the course of the repayment period. This is because repayments are in equal monthly installments (i.e. they are constant throughout the repayment period), while income is projected to increase owing to inflation (assumed to be 5 percent per year for this example) and to real earnings growth (assumed to be 2 percent per year for this example).

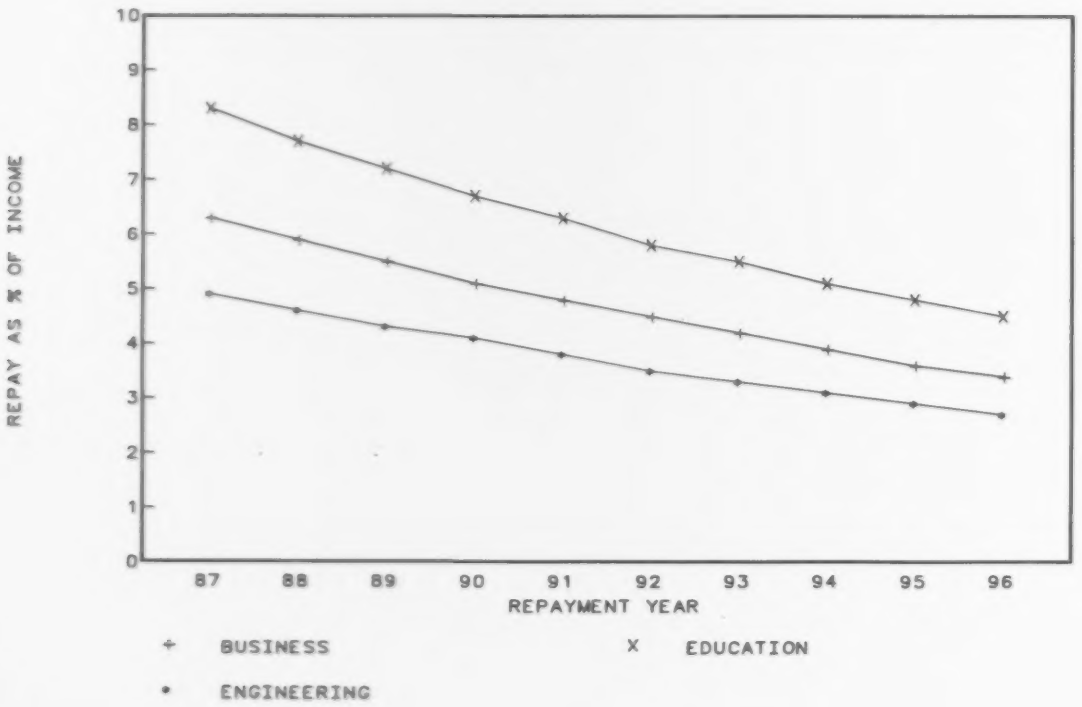
These data suggest that the average GSL borrower in Pennsylvania is not overborrowing in relation to earnings potential.

While analyses such as the preceding one can provide useful insights to public policymakers and to taxpaying citizens, and may alleviate widespread concern that all students are overburdened, it is true that some students are borrowing more that is prudent. And it is to them that individualized debt counseling must be directed. To do otherwise is unfair to them and to the American taxpayer. And so the challenge of student loan counseling is that simple, and that complex.

DEBT LOAD OF "TYPICAL" PUBLIC UNDERGRAD



DEBT LOAD OF "TYPICAL" PRIVATE UNDERGRAD



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Determining Student Capacity to Borrow

a commentary by

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Occidental College

I will begin by expressing my appreciation for being asked to respond to Dwight Horch's paper. Although given the diverse nature of students as a whole, I cannot claim to represent any definitive "student perspective." I do hope that as a student currently in the loan process I can present issues in the loan program which will provoke thought and stimulate discussion.

Dwight Horch's studies are valuable pieces of research in an area badly needing similar efforts. My comments will focus on remaining unanswered questions in counseling and some potential implications of incorporating debt limits into loan counseling. Some of my points have been mentioned by previous speakers, but, I hope by restating them I shall only be emphasizing their importance.

The "What" of Counseling

My first point involves discussing the "what" or the content of counseling. Although Dwight's outline of essential ingredients of student loan counseling is useful, one should keep in mind the diversity of the student population and differences between post-secondary institutions. For example, problems in the loan program seem to affect two categories of students who may have different counseling needs. Whereas one category includes the characteristic defaulter whose loan burdens is small but who perhaps did not finish school or find his/her education made a difference in his/her life, the other encompasses the student plagued with enormous indebtedness upon graduation.

Similarly, understanding the differences in institutional personell and facilities is necessary for the development of viable policy proposals. Proposals must be flexible enough to be adopted by a wide-range of post-secondary types or else focused specifically on certain types of schools. For instance, while it would be ideal, I doubt if every college and university currently possesses the resources to provide every student with access to Horch's Student Loan Counselor. In this case, alternatives such as films or videos might be far more effective.

The "When" of Counseling

Horch seems to imply that counseling should occur at the undergraduate level. I wonder if this timing is too late. Unless, as others suggested earlier, loans were abolished for freshpersons and sophomores, (which would be exceedingly difficult at community colleges and proprietary schools) the process of acquiring a student loan often begins the senior year of high school. Despite the problems of implementation due to factors such as the age of students or lack of structural support, this possibility requires further exploration. Perhaps the content of counseling information should be varied with the time it becomes available in the process (i.e. high school, first loan, graduation). My idealistic nature thinks early counseling efforts can help establish the much needed sense of fiscal responsibility.

The "Who" of Counseling

By Who, I am referring to who does the counseling and who is responsible for ensuring students receive counseling. Everyone here appears to agree student loans are an issue of concern for a variety of groups: the Feds, post-secondary institutions, counselors, and lending institutions. But with so many actors, we face the problem of "passing the buck" or never delegating responsibility. Hesterday, Ted Marchese suggested that state guarantee agencies sould be held responsible for counseling efforts. I hope, by the end of the colloquium we will have at least taken a step forward in asserting who ultimately should be responsible for what aspects of the loan program. Perhaps under the coordination of a single entity, counseling can be divided according to the ability of each sector to provide certain types of information.

Implications of Debt Limits

Regardless of who must educate the student, the incorporation of debt limits suggests the addition of new elements to counseling. If according to needs analysis, a student without any remaining personal resources has already reached an excessive level of indebtedness and the institution cannot provide alternate funding, what options should be outlined? Should the student be told she/he could leave school for a year to work? Should the student be told to consider attending a less expensive institution? (I know the best deal for one's money in California probably is attending a state university after two years at a community college). But, if this is the situation, what is the impact of student loans on the, by now, not so sacred, principles of access and choice?

The Effectiveness of Loan Counseling

As many have stated, the increase in student loans does not appear likely to halt in the near future particularly given the rising costs of education and the lack of adequate grant aid. This scenario implies that even if students receive proper counseling, their decision to take out or reject a loan is limited. If a needy student decides to attend a high-cost college with all of the corresponding educational benefits, student loans may be inevitable. Therefore any improvements in counseling must be accompanied by other structural changes in the funding of education or the loan program itself.

Conclusion

In closing, I want to acknowledge the idea of having a student assume partial responsibility for paying for college so that she/he better understands their education is a valuable one. If that is the goal of student loans, however, I am not sure whether the program comes even close to achieving its aim, at least, not while the student is in school. After all, the student never truly comprehends the lesson of taking out the loan until she/he has graduated and begun repayment.

Determining Student Capacity to Borrow

A commentary by

Cheryl Wilkes
Director of Financial Aid
Medical College of Georgia

Various formulas have been presented to determine the theoretical maximum which a student can reasonably meet in monthly repayments of student loans. The argument has also been advanced that student willingness to repay a loan is more important than ability to repay; therefore, it is impossible to predict a maximum manageable debt level. The dilemma is that a student may borrow, by using only one or multiple loan programs, more than may be comfortably repaid.

The options are equally unappealing. Do you restrict student choice of institution or field of study by limiting the maximum loan obligation which may be incurred? Do you guarantee student default by permitting excessive student loan debt? Regardless of the social good, a loan is a loan which must be repaid.

Each loan program has its own maximum for annual and cumulative borrowing. The programs do not, however, coordinate borrowing from more than one source. The only two points of coordination are the campus financial aid office, if the loan must be certified, and the student borrower. Granted, current research does not indicate excessive average debt; but individual students are assuming potentially excessive debt.

The typical undergraduate has the capacity to borrow a maximum of $12,500 in the Guaranteed Student Loan, $6000 in the National Direct Student Loan, and additional amounts from institutional or private student loan programs. The total of the monthly payments required by just these two loan programs at maximum borrowing is about $215. Legislation is under consideration which would increase maximum loans to $14,500 for the Guaranteed Student Loan and $10,000 for the National Direct Student Loan. The total of monthly payments to retire this maximum debt is about $282. Theodore J. Marchese, in his presentation at this conference, described the typical graduate as beginning at a salary of $18,000 with an after-tax income of $13,600. Therefore, current debt maximums in GSL and NDSL alone can absorb 14.3 percent of gross income for this typical graduate or 19 percent of after-tax income. At the proposed increased maximums, the debt repayment would take 18.8 percent of gross income or 24.9 percent of after-tax income.

The problem is magnified when considering the borrowing capacity of graduate and professional students. Under current legislation, the graduate student can borrow up to $49,000 from GSL, NDSL, and the PLUS/ALAS programs. The health profession student can borrow over $150,000 in federal student loan programs.

Loan burden must be considered in the context of future income. The question remains how this is to be done. At least five models have been presented at this conference. For our hypothetical college student beginning at $18,000 per year, the debt repayment range extends from approximately $75 up to $225 per month. At an interest rate of 8 percent with a 10-year repayment, a $75 per month repayment would retire a loan of $6178; monthly payments of $225 per month would retire $18,533. By extending the repayment period to 15 years, the loan amount for a $75 payment can be increased to $7845 and to $23,535 for a $225 payment.

Dwight Horch, in his presentation, cited the need for policymakers to develop loan programs with terms and conditions that do not overburden students with debt. The options presented are sound: lengthen the repayment period where needed, allow graduated repayment, a loan forgiveness feature for work in fields of need in shortage areas, and a reasonable loan ceiling for all types of educational borrowing.

I would not expect much controversy over the first three points. On the other hand, I would expect little agreement on the last point. The most widely heard argument is that the informed student borrower is the best judge of how much to borrow. The argument assumes that sound counseling and consumer education is available to all students, that students know how much they borrow, when payments begin, how much those payments are, and the relationship of the payments to future income.

Visits with campus aid officers and lenders will quickly test the validity of the assumptions. Officials agree that lenders and schools have an obligation for counseling and providing loan repayment information. The frustration is in actually reaching students and getting the message across to keep good records and understand obligations. Concern exists that students may now be borrowing in preference to working. Schools report an inability to discourage and prevent students from borrowing up to the amounts permitted by legislation. Higher costs schools may also experience institutional pressure not to discourage borrowing so that students will choose to attend the school. Schools report staffing inadequacies to do the job needed in counseling and in recording aggregate debt for each student. In light of the lack of coordination of loan programs, the success story is that default is as low as it is. The increasing level of borrowing raises concern that the success story can continue.

At the Medical College of Georgia, student literature presents the elements necessary for good student consumer behavior in relation to educational loans. The admissions bulletin lists by discipline the expected typical starting salary and employment opportunities by field of study. The financial aid guide contains instructions for estimating monthly loan repayments at varying interest rates and lengths of repayment. My staff drafted a monograph on financial management and planning which was published by the Association of American Medical Colleges. We do compile student debt information both for individual counseling and for research. Unfortunately, this is all our staffing permits. To do more, even just for peer counseling, carries a price. Although we have a multimillion-dollar student aid program, so few of the dollars are generated through those programs which offer reimbursement that only $28,500 was received to assist with the total costs of administration. The money is simply not there to expand student loan counseling. It is past due that the GSL program begin to assist with a fair share of the administrative costs for that program which are incurred by institutions.

Should there be a limit on student borrowing? My answer is yes and that this limit should reflect the student's field of study and potential income plus the year in the program. This maximum should be two-tiered with a recommended level and an absolute level. Current research appears to support a comfortable borrowing range which requires no more than 7.5 percent of first-year income. Students, with more difficulty, are handling payments of up to 15-17 percent of first-year income. These appear to be good beginning points for recommended and maximum borrowing.

For those students who need additional funds, schools must do a better job of developing employment opportunities which maximize income, increase grants, modify loan terms to permit higher debt levels, and controlling costs. The important point is that the student is protected from unmanageable monthly payments.

The Medical College of Georgia has experimented with this concept in its School of Dentistry. Given generally high start-up costs and income expectations in the early years of practice, the target debt for our graduates was established at $35,000, which includes undergraduate debt. At current rates, a four-year education at our institution exceeds $46,000. If a student enters with $5000 debt from undergraduate institutions, recommended additional borrowing is $30,000. The $30,000 is prorated over each year of study to control for debt at each year. The School then relies heavily on student employment, increased family help, grants to the extent possible, and student budget austerity to stay within the debt target. Student jobs are sought which maximize hourly income in recognition of skills the student brings to the job. The approach thus far is working. The student consciousness of reasonable borrowing is reinforced and

alternatives to borrowing are a high priority. As costs continue to increase, additional pressures will be brought to bear to continue this approach. A good loan consolidation program offering lengthened repayment period could make this continue to be a feasible approach.

In summary, student loans are essential today for access to education and, most particularly, for choice in education. Given the multitude of student loan programs, the potential exists for excessive borrowing. Schools need guidance and financial assistance to improve student loan counseling. A responsible loan maximum which is in relation to monthly payments as a percentage of expected income should be instituted with increased emphasis on alternatives to borrowing. Finally, a student loan consolidation program must be reinstated.

Mechanisms that Work: State and Institutional Models for Student Loan Counseling

A Panel Presentation

Introduction

At the time we were asked to form this panel, we tried to identify those aspects of the Colloquium agenda which might not have been dealt with in the previous three general sessions -- to plug the gaps, if you will.

Nevertheless, it is inevitable that whomever goes last faces the prospect that much of their thunder may have been stolen by earlier speakers and reactors, and in the small-group discussions. We console ourselves that the remarks of our predecessors reinforce the importance of the topics we have chosen to present and, of course, being last up does give us the opportunity for the final word.

Although the Colloquium has maintained the original working title of this panel as "Mechanisms That Work: State and Institutional Models for Student Loan Counseling," it became increasingly clear to us in our planning sessions that our individual interests and projects involved more than just student loan counseling. Indeed, although we never reached closure on the matter, we had thought a somewhat more appropriate panel description might have been "Student Loans and Debt Management: The Institutional Perspective." Even more than just an institutional perspective, each of us will describe a project, a program, an institutional strategy in which she or he has been involved and whose thrust addresses one or more of the issues which have been developed during the initial two days of the Colloquium. Our only additional caveat is to dispel the expectation that our models will work and to suggest that this session should probably be retitled, "Models Which May Work," since several of those to be discussed are just now coming off the drawing board and we may even touch upon one or two ideas which didn't seem to work on the first go-round.

* * *

Donald McM. Routh
University Director of Financial Aid
Yale University

I shall report on research, modeling and policy discussions which have and will shape financial aid policy, in general, and student loan policy, in particular, at Yale University. I shall begin with a brief description of Yale and its financial aid policies; I shall report on the results of our research on cumulative loans, debt burden and defaults, and on some of the ways in which this information has affected and very likely will affect Yale's financial aid and loan packaging policies; I shall comment briefly on Yale's short-lived experiment with income-contingent loans and the feedback which has encouraged us to consider further alternative institutional loan structures and repayment options; and, finally, I shall mention the impact which these studies have had upon our budget process and the alternatives for institutional financing of student loans at Yale.

Before I go any further, let me acknowledge Ted Marchese's very gracious tribute to Yale's cooperative research effort. While the Financial Aid Office has had primary responsibility for creating the cumulative loan database, we would have nothing to report had we not been blessed with the interests and energies of Yale's extremely able Office of Institutional Research, directed by Judith Hackman. They are to be credited fully with the analysis of the data and, together with Mark Jacox in the Budget Office, with development of the loan demand and financing model.

Yale University consists of an undergraduate college of 5,200 students, and approximately 5,600 students distributed among the Graduate School of Arts and Sciences (2,500 students in 56 programs) and twelve Professional Schools and Departments, which range in size from just over 100 in the School of Art to almost 600 in the Law School and which enroll a combined total of almost 3,100 students. The 1985-86 term bill (room, board and tuition) in Yale College is $15,020; for financial aid purposes, we use an estimated budget of $16,300 plus travel. Graduate and Professional tuitions range from $7,200 in the School of Drama to $11,750 in the School of Medicine, with total budgets on the order of $15-19,000 and, for students with families, as high as $27,000.

Let me pause here just long enough to acknowledge that there may be little resemblance between the kinds of numbers I am reporting and the tuition rates and loan levels at the schools which many of you represent. However, I would remind you that - just as has been the case in the past with respect to certain elements of need analysis, and the analysis of parent and student federal income tax returns - what is true of student borrowing today at the subset of private, high-cost institutions may very well be true of the flagship public universities tomorrow

(especially with reference to non-resident students) and of various lower-cost institutions the day after that.

In any case, Yale's high costs are offset by a strong commitment to financial aid. For the 22nd consecutive year, a 'package' of financial aid which met the demonstrated need in full was awarded to every student who was accepted for admission to Yale College. Approximately 40% of each class requires and receives such assistance. Although not all of the Graduate and Professional Schools are able to maintain similar full-need policies, the numbers of students who do receive financial aid are much greater. In the Graduate School, which is the only School in which need is not a necessary criterion, 74% of all students receive fellowship support. In the Professional Schools, which <u>are</u> need-based, assistance is granted to over 70% of all students.

Despite the $30 million scholarship budget, financial aid at Yale is highly dependent upon 'self-help'--and upon educational loans, in particular. In 1985-86, the basic self-help expectation in Yale College is $3,650 for freshmen and $3,900 for upperclassmen; most students earn about $1,000-1,300 and borrow the rest. Graduate students generally borrow only to supplement their stipends, if at all, but loan levels for Professional students are very high, averaging well over $8,000 and ranging from just under $5,000 per year in Drama and Divinity to more that $13,000 in Medicine.

To put these loan levels into slightly different perspective: despite the period of double-digit inflation and the real-dollar decline in federal and state support for student aid which have caused us to increase scholarship expenditures in Yale College by 145% since 1979-80, our self-help levels have increased by only 49% during the same period. Indeed, Yale's self-help ranks very close to the mean among Ivy and other high-cost private colleges. However, because scholarship funds in the Professional Schools are generally tied to a fixed ratio of tuition income, loan levels in those Schools have risen at a much more rapid rate. By means of the loan projection model which Jacox has developed, we have estimated that Yale will need a very substantial amount of new student loan capital during the next ten years.

Despite the University's best efforts, there are at least three major reasons why educational loan requirements have increased so markedly, and why even greater borrowing can be expected in the future:

1. <u>Rising tuitions and growing self-help levels.</u> As tuitions rise and scholarship budgets tend to remain a fixed proportion of tuition income, self-help levels have increased at greater rates to fill the need gap.

2. More costly loans. The decade-old maxima on federal Guaranteed Student Loans (GSL) and the lack of significant growth in National Direct Student Loan (NDSL) funds are forcing students at high-tuition schools to turn to additional sources such as institutionally-created loans and the new but more costly federal Auxiliary Loans to Assist Students (ALAS). For Yale students, both the ALAS and the Yale Student Loans (YSL) presently have moderate-rate interest (12%) and no in-school subsidy. The net effect is an even greater debt burden than would be true if higher levels of GSL or additional amounts of NDSL were available.

3. Higher previous indebtedness. A growing number of students enter professional schools with increasing amounts of prior indebtedness, primarily in the form of undergraduate loans. Undergraduate borrowing has been fanned by the two factors described above, as well as by increases in "loans of convenience."

As a consequence of these factors and our projections, Yale has undertaken a concentrated review of student loans during the past two years from the standpoint of three concerns. First, we have become increasingly concerned about the problem of debt management. How much are students actually borrowing? To what extent are they able to cope with the repayment requirements of the loans which they have undertaken? What do we know about their scheduled payments as a function of their incomes? And what is the relationship, if any, between their income-repayment ratios and their actual records of default?

Second, we have taken a fresh look at student loan terms. Is the standard ten-year fixed repayment schedule really appropriate for all student borrowers, regardless of the amounts they have borrowed or differences in their short- or long-run income expectations? Should we be providing more options for extended or graduated repayments? Is it time to consider again the possible advantages of income-contingent repayment? As a result of her research on Yale's short-lived Tuition Postponement Option (TPO) of the mid-70s, Rena Cheskis-Gold has obtained some interesting and surprising suggestions for the structuring of future institutional loans from TPO alumni.

Finally, to the extent that Yale will inevitably increase its student and parent lending in the future, what are the most likely and most attractive resources of educational loans? What is the optimum hierarchy of loan funds in the University portfolio? How can we best use available federal and state resources, including tax-exempt bonds? What is the role of the Student Loan Marketing Association (SLMA or "Sallie Mae") and of various state agencies in making secondary markets or otherwise providing additional sources of student loan funds?

Let us turn then to the initial results of these studies. Beginning with the Class of 1982, we have determined the total cumulative student loans, regardless of type, accrued by every graduate of the University for the past four years. Insofar as our records yield the information, these cumulative loan amounts include what we call "prior indebtedness"; namely, all loans undertaken prior to entering the School from which the student is now graduating and consisting primarily of undergraduate GSL and NDSL, or various types of loans assumed while enrolled in graduate or professional programs prior to the current one. In addition to prior indebtedness (which is now a standard element in our financial aid database), we tally all in-school loans, whether directly funded by Yale or secured from a bank or other outside lending institution such as the Law School Assured Access Program or the new Family Education Loan Plan in Connecticut (if made directly to the student). We do not include parent or family loans for which the student does not have the primary responsibility for repayment.

Before looking at the results of this four-year survey, let me point out that I have included as the first page in the handout a copy of the survey instrument and instructions to the individual financial aid officers from whom we secured the data. This is pretty mundane stuff but I offer it, with no restrictions on its use, for two reasons: we would like to encourage a wide variety of institutions to begin to establish similar databases and, for purposes of comparative analysis, they may wish to consider adopting the definitions and parameters in use at Yale.

Table I, at the end of this paper, shows the cumulative debt levels, by School, for graduates of Yale's Professional Schools and Departments for the four-year period, 1982-85. In the abstract, these data don't do much more than confirm that the absolute amount of borrowing is indeed increasing at a rapid rate. For example, from the totals on Table I, you will note that, although the total number of borrowers actually declined by 3% between 1982 and 1985 (possibly a modest reflection of the reintroduction of the GSL needs test), the mean cumulative loan for the group increased by 44% to $19,080. Moreover, with particular respect to prior indebtedness, there was a 39% increase in the number of graduates who had borrowed previously and the average prior loan had increased by 42%. To look at it from a different perspective, only 39% of the total borrowers who graduated in 1982 had prior loans, whereas the proportion rose to 55% in the Class of 1985, thus confirming our hypothesis about the increasing significance of prior indebtedness.

Now, let us turn to Table II. Here we have ranked the Schools according to the calculated educational debt burden, which we have defined as the ratio of scheduled annual loan payment to average first-year income. While the income data is the softest

portion of the equation, we have used the best available School-reported data for recent graduates.

The first thing we notice, of course, is that the debt burden in 12 of the 13 units exceeds the various definitions of "manageable" which were reviewed yesterday by Horch, although School H would pass his own test for high-income graduates and Hartman would perhaps only worry about the graduates in the first three Schools. Moreover, let me remind you that we are dealing here with School means and we would have even greater concern if we were to go back to Table I and calculate the debt burdens for those graduates whose total loans are in the 90th percentile - and then keep in mind that 10% of all borrowers have total debt even greater than that.

By the way, we have not included Yale College in this report because we are still reconciling their 1985 data. However, on the basis of 1984 figures, we estimate that the mean loan was slightly in excess of $8,000 and, if we assume an average starting salary of $16,000, created a debt burden on the order of 7%; by Yale standards, this is hardly reason for concern - at least until these students enter graduate and professional school! On the other hand, we must remember that there is a time lag between the implementation of higher self-help levels and their reflection in this survey of graduating students. For example, an aided freshman in Yale College this fall (1985) is very likely to graduate in 1989 with about $11,000 in loans and a first-year medical student, even if we were able to freeze the current self-help level, would graduate in the same year with $53,000 of in-school debt in addition to whatever prior indebtedness.

Indeed, it was the initial report of our 1982 data which led a senior official (who I am sure had not read Horch or Popik) to observe that Yale seemed to be "programming its graduates for default." Although our collections are comfortably within all federal benchmarks, Yale is just as concerned about defaults as any other institution. This is so particularly because we are a first-resort GSL and ALAS lender to all but Yale College and because we are currently initiating institutional loans at the rate of about $1.5 million per year, a figure which may well reach $10 million per year within the next ten years. So debt burdens and loan defaults are of continuing concern not just to our financial aid officers but, subsequently, to the officers of the University and the Corporation. But is there a relationship between debt burden and default? If there is a correlation, can we adjust our financial aid and loan policies to help reduce the likelihood of default?

While we are currently involved in an in-depth analysis of defaults and we do not yet have specific numbers, I have indicated in the right-hand column of Table II the relative positions of the Professional Schools with respect to current rates of default. In

this simplified analysis, we need to remember that the current graduates are not the same students who are showing up on the default roster. On the other hand, since we are reporting on School means rather than individual students and if we assume that School-wide data are likely to be more stable over time (an hypothesis which remains to be tested), we are inclined to rely somewhat more upon any patterns which may emerge.

At first glance, School I appears to be an aberration. However, you have no doubt already fathomed that I is the School of Medicine and, of course, the relatively low default rate reflects the whole set of physicians whereas the 19.5% debt burden applies specifically to the third year of residency (when repayment begins). As Cheryl Wilkes and others have observed, the only apparent problem in the Medical School is to get the graduates out of residency and into six-figure practice. Certainly, Medicine is the protypical school in which to institute graduated repayments.

However, the relatively strong showing of Schools C and F is not so easy to explain unless, if I tell you that one of those Schools is Divinity, you are inclined to advance a socio-ethical hypothesis. Actually, my own guess involves a combination of attitude, modest living standards, possibly a higher incidence of two-income families and, so we are told, a growing tendency for certain parishes to assume educational loan payments for young ministers.

A corollary hypothesis may be applied to Schools H and M. Between their relatively modest debt burden and very high starting incomes, is there really any reason for these Schools to be in the middle of the default scale? If I confirmed your hunches that these two Schools are Law and Management, might we agree that the explanation may also have much to do with attitude and with the early anticipation of comfortable life-styles?

Beyond those particular situations, however, the pattern of debt burden and default is pretty close. Actually, if we were to re-rank the Schools in the order of starting incomes, we would find an even closer correlation; the lowest seven Schools by income include the five top defaulters plus the special case of Schools C and F which rank fourth and sixth, respectively, on the income scale. All of which may simply bring us back to Jerry Davis and his suggestion that the people who don't repay their loans are the ones who don't have any money.

What are the implications of all this for financial aid and loan policy? Let me simply list five changes we have made at Yale in the past three years as well as several others that seem worthy of consideration.

1. Yale has made the GSL the loan of first resort for every aided student in the University, without exception. Not only does this maximize our students' utilization of this universally available and highly subsidized program and place every Yale borrower on even footing initially, but it also preserves certain even more attractive funds such as NDSL, HPSL and NSL for students whose needs can be measured in terms of debt burden rather than the less relevant historical family income.

2. Although Yale's financial aid policies are generally decentralized and school-specific (with the primary exception of the GSL-first policy), the Provost has established a hierarchy of loan order for purposes of allocation of NDSL funds within the University. Therefore, in Yale College, the Graduate School and the so-called "arts" Schools (including Divinity), NDSL is the loan of second resort and these Schools are fully funded with NDSL to meet all loan needs beyond the GSL maximum. In the Schools of Law, Management, Medicine and Public Health (whose graduates generally anticipate high incomes), ALAS is the loan of second-resort and NDSL is only available to students whose annual loan needs exceed $8000 - and then only after the School has used any special funds available to its students, such as HPSL or School endowment loan funds. For three Schools in the middle-income range (Architecture, Forestry and Nursing), we allocate NDSL roughly equal to 50% of their post-GSL need with the expectation that such students will combine NDSL and ALAS in order to approximate GSL rates for this additional borrowing.

3. For a number of years, certain Yale Schools such as Architecture, Divinity and Nursing have taken prior indebtedness into consideration in the creation of their individual financial aid packages. Although this does result in certain inequities about which low-borrowing students are often quite bitter, on the basis of our data and much of the discussion at this Colloquium, it would seem that we ought to consider expanding this policy.

4. In an effort to encourage students who are concerned about their loan levels, we have increased within the Student Employment Office the placement priority of Graduate and Professional students who are willing and able to increase their term-time employment.

5. The Law School has instituted this fall a Public Interest Loan Deferment Plan similar to one described by Roberta Popik at Northwestern, except that Yale does not provide for forgiveness at this time.

Clearly, we at Yale need to consider even further the policy implications of our data. For example, can we break down our analysis by various programs within an individual School? Just as we are inclined to provide repayment relief to public-interest lawyers (except that we can't identify them before graduation), would we subsidize a medical student who plans to (or does) enter family practice rather than undertaking a higher-income specialty? Would we decide to use different loan levels in the School of Music for students who plan to teach than we do for those who are preparing for performance careers? Should a prospective hospital administrator be expected to borrow more heavily than a public health officer?

We have discussed in earlier sessions of this Colloquium the possibility of minimizing borrowing for first- and second-year undergraduates. While Yale's attrition rate is minimal, such "drop-outs" do show up disproportionately on the default roster. The possibility of differentiated GSL limits, as proposed in H. R. 3700, gives us a special opportunity to re-examine our self-help policy at that level.

Finally, we believe that student borrowing at anything near Yale's levels will always produce problems as long as we continue in the strait-jacket of ten-year, equal-payment schedules. Although we strongly support consolidation as a means of facilitating repayment of multiple loans and of maximizing the minimum monthly payment provisions, it will only provide relief to the majority of Yale borrowers if such a program incorporates extended and, possibly, graduated repayment options. I have previously referred to medicine as the prototype for graduated payments but that is also true of other fast-track professions such as law and management. On the other hand, certain flat-income professions such as teaching, nursing and the ministry can benefit very little from graduated payments but would find it much less burdensome if their repayment could be spread out over, perhaps, fifteen years.

Which brings me to income contingency. I wish there were enough time to discuss this concept in depth because many persons have expressed interest in how the Tuition Postponement Option (TPO) worked at Yale during the seventies, and why it was abandoned. Regrettably, a full description of TPO could probably be a separate Colloquium topic; suffice for now to say that Yale gave it up for fiscal reasons and not from any conviction that the idea was not sound.

Indeed, based upon our experience, we continue to believe at Yale that income contingency remains a viable option to facilitate repayment of certain types of loans and for certain kinds of borrowers. This might be especially true for those with volatile incomes such as writers or actors, or even for doctors, lawyers and managers during periods of internship or public service.

I might just note two examples which suggest that income contingency is an idea whose time may just be coming. First, Congressman Petri (R-WI) has introduced income-contingent loan legislation at least twice in the past three years. Second, even as we meet, we learn that the State of Minnesota is drafting an income-contingent alternative for borrowers in the health professions (those, interestingly, with scheduled payments which exceed 10% of current income).

What I do wish to do is to report briefly on one outcome of a comprehensive TPO study carried out in 1983 by Rena Cheskis-Gold in Yale's Office of Institutional Research. One of the things we sought to show in this study was that different types of loans may be better for different kinds of people, and that an awareness of differences in eventual lifestyle may well reduce the default rate and minimize the University's risk in underwriting its own loan programs. With this objective in mind, we derived some very simple research results which indicate that borrowers with more or less discretionary household income have very different preferences for loan features, and that the features which they select are the ones that most nearly correspond to their lifestyles and pocketbooks.

The data were extracted from a survey of all borrowers who participated in Yale's TPO. They were a diverse group of borrowers. Some took no other loans while at Yale; others participated in many loan programs at Yale and elsewhere. Both undergraduates and students in Yale's Graduate and Professional Schools participated in the TPO and in the survey.

Although the survey was multi-purpose, one of its goals was specifically to garner input from borrowers concerning the loan features that they would like to see in future designs of Yale-sponsored loans. This goal was accomplished by giving the survey population a list of loan options and asking them to rate each feature on a five-point scale as to whether they would exclude or include it in a new loan design. There were three features in particular which we surveyed: Payment Type (fixed, graduated or income-contingent); Payment Size (large, moderate or small); and Repayment Period (short, moderate or long).

With regard to type, we discovered that the TPO participants were generally satisfied with income contingency but that two groups, in particular, were more likely to favor fixed or graduated payment: those with high income and those with two-income families. As for payback, we found a remarkably strong preference for the moderate option. Indeed, while certain individuals with particularly low incomes did prefer smaller payments over the longer term, when we grouped the graduates by School, we found that--even when they favored income contingency --no group preferred the long-term repayment option.

This summary hardly does justice to Cheskis-Gold's study. There is much more detail concerning response by School, income, marital status, etc., and we would be glad to share the full report of the study upon request. What we did conclude, however, was that loan administrators ought to keep in mind that different graduates may have different repayment needs and that it seems reasonable for us to try to customize loan types to the borrower's future financial situation, insofar as that can be foreseen.

Finally, I would make just brief reference to our Budget Office model for projecting the demand for student loans as well as for analyzing the optimum patterns of borrowing and the means for financing such loans. The model incorporates what we know about current borrowing patterns, by School; the eligibility limits and repayment terms of the various available loan types (federal, state and institutional); and our own forecasts of tuition rates, inflation rates and individual School financial aid resources and packaging Policies.

I believe that many institutions have developed similar models and so I shall not attempt to illustrate the model, although we would be happy to share information upon request about any of the studies which I have described this morning. Rather, I shall simply conclude with a summary of four policy decisions made within the past two years on the basis of the outcomes of our budget modeling:

1. We have projected the University's loan needs for the next decade. Because we are already making maximum use of all available federal and state programs (with the exception of HEAL and, in certain Schools, ALAS), most of the incremental loan demand will have to be met with institutional or other non-public and non-subsidized funds. Therefore, these projections are critical to the University budget process as well as to those of us who share responsibility for developing loan options which will best meet the needs of our students.

2. We have reversed our strategy as an institutional ALAS lender. Yale first became a lender in 1982 because we believed that the option of accruing and capitalizing the in-school interest was critical to our ALAS borrowers and we could not locate a single lender who would provide that option. Then, in 1983 with the advent of the Law School Assured Access Program and, subsequently, the National Access Loan Plan, we made an initial decision to defer all new ALAS lending to those agencies because of the complexity of administration and the absence of a secondary market for that particular program. However, based upon the cost analysis performed with the Budget Office model and--very significantly--SLMA's implementation of an ALAS-purchase program, it was

determined that in-house ALAS lending was not only a convenience to our students but also in the financial interest of the University.

3. We have calculated the optimum array of institutional GSLs to be underwritten with Yale's share of tax-exempt loan funds from the Connecticut Higher Education Supplemental Loan Authority (CHESLA). I won't go into the details of this somewhat technical problem except to point out that, since the Department of Education cut off the 50% portion of the GSL Special Allowance which we had anticipated when we entered into the agreement with CHESLA, it has turned out that there are substantial differences in the cost of forgone Special Allowance among GSLs of different terms and dates. With the help of the model, we were able to minimize that loss.

4. Because the model incorporates administrative expenses and default rates, our calculations confirmed the decision to maintain a "full-cost" rate of interest at 12% on the institutional Yale Student Loan, despite recent easing of national interest rates and costs of commercial borrowing.

These, then are some of the projects in which we have been involved and the policy implications which have been derived from them. We believe strongly that many comparable institutions, if they are not already doing so, should and will be making similar studies and decisions in the next few years. We welcome the opportunity to share our experience, just as we know we have much to learn from the research and planning of others.

TABLE I

Cumulative Debts for Graduates of Yale's Professional Schools: 1982 - 1985

SCHOOL	YEAR of Graduation	DEGREES Mean $	PRIOR LOANS Mean $	PRIOR LOANS Mean $	PRIOR LOANS 10% $	PRIOR LOANS 90% $	IN-SCHOOL LOANS Mean $	IN-SCHOOL LOANS Mean $	IN-SCHOOL LOANS 10% $	IN-SCHOOL LOANS 90% $	TOTAL LOANS Mean $	TOTAL LOANS Mean $	TOTAL LOANS 10% $	TOTAL LOANS 90% $
A	3-year Program													
	82	45	16	4161	1380	8030	37	11511	6200	17700	37	13351	7000	20800
	83	53	18	5191	1245	15180	42	12239	3300	17760	42	14464	6730	20920
	84	52	20	5668	1156	15400	40	15920	6850	21970	40	18753	7750	27242
	85	46	11	4086	1580	7400	28	14853	5000	22320	29	15891	5000	24500
B	2-year Program													
	82	52	18	3107	490	7190	40	10698	9050	12450	40	12096	9550	16950
	83	55	19	3220	400	7000	46	11559	10000	13000	46	12889	10000	17405
	84	47	19	2765	500	6500	34	13171	10500	15250	34	14716	11000	18625
	85	57	28	4704	1475	8000	45	12798	5600	16000	45	15905	6800	21961
C	3-year Program													
	82	143	30	3550	1500	5652	72	8998	5150	12785	72	10477	6425	14858
	83	152	47	3432	300	11300	102	10554	2000	18500	105	12090	3200	26782
	84	133	38	3599	500	13239	82	11977	5255	17070	83	13480	3500	30000
	85	139	59	4737	1000	9784	88	11519	4945	18050	92	14056	5000	21880
D	3-year Program													
	82	51	22	3097	770	7890	39	9797	7500	12305	40	11498	7838	15951
	83	58	17	3504	280	8391	42	12844	9095	15000	42	14263	11474	19799
	84	56	23	3676	640	7100	49	12103	5150	16290	49	13828	5150	19310
	85	54	20	3931	410	7180	47	13182	6724	17220	447	14855	7732	20339
E	2-year Program													
	82	93	32	4380	885	7500	80	10681	6939	14032	81	12279	8000	18875
	83	84	35	5714	591	12074	85	12071	5000	16256	86	14256	5000	21280
	84	103	30	4133	1317	7919	63	14507	6200	21434	63	16475	8320	25145
	85	90	39	4690	1200	8920	57	15531	8000	22952	57	18740	9174	28304

SCHOOL	YEAR of Graduation	DEGREES Mean $	PRIOR LOANS Mean $	Mean $	10% $	90% $	IN-SCHOOL LOANS Mean $	Mean $	10% $	90% $	TOTAL LOANS Mean $	Mean $	10% $	90% $
F	2-year Program													
	82	63	19	2991	900	5000	51	8760	5000	12300	51	9845	5000	12300
	83	74	46	7242	5000	12800	46	5999	4500	8300	49	12431	5000	19334
	84	58	NA	NA	NA	NA	NA	NA	NA	NA	38	14958	5000	20710
	85	58	20	4165	1051	8080	34	11994	5000	17150	36	14308	5000	23445
G	2/3 year Program													
	82	8	3	3537	2500	5000	5	5962	2504	9700	5	8084	5000	11610
	83	10	2	1375	1250	1500	6	10050	4000	11700	6	10508	5500	11700
	84	8	5	3782	2000	6000	6	7750	4950	10000	7	9351	4950	16000
	85	10	1	2746	2746	2746	4	11269	5000	15000	4	11955	7744	15000
H	3-year Program													
	82	184	15	3272	1170	6350	50	13099	6655	19530	50	14080	6720	21505
	83	183	66	4634	1070	8125	155	14588	5000	22045	156	16455	5070	25383
	84	176	68	5366	1364	11185	163	17347	5000	25865	164	19466	5000	30648
	85	187	82	5998	1765	10000	135	18837	6258	29660	135	22480	9208	33934
I	4-year Program													
	82	86	20	3475	610	6225	50	21506	10000	34485	50	22896	10000	34660
	83	98	37	5996	1480	12468	88	23918	10000	37234	88	26439	10000	41561
	84	106	47	5783	756	14636	94	27027	10500	43315	94	29918	11000	47625
	85	103	52	5277	1272	9957	88	29957	5000	54288	88	33055	5000	59352
J	2/3-year Program													
	82	66	17	4089	820	7100	40	7532	4000	10770	40	9270	4650	15405
	83	79	24	3451	1200	7400	55	9194	2600	14440	55	10700	3120	17200
	84	77	24	4508	496	8204	52	11685	5000	16940	53	13506	5040	22060
	85	85	28	5623	1119	10000	48	10853	1900	19005	48	14133	3350	24058

SCHOOL	YEAR of Graduation	DEGREES Mean $	PRIOR LOANS Mean $	Mean $	10% $	90% $	IN-SCHOOL LOANS Mean $	Mean $	10% $	90% $	TOTAL LOANS Mean $	Mean $	10% $	90% $
K	2/3-year Program													
	82	79	16	3275	925	6921	43	9560	5000	16330	44	10542	5000	16715
	83	78	25	3609	1016	8191	70	11799	5000	17950	71	12903	5644	19510
	84	66	24	3148	496	5681	55	13952	10000	20380	55	15325	10000	21958
	85	71	24	4215	2150	6500	55	15647	7624	25710	55	17486	8936	27620
L	2-year Program													
	82	18	7	2314	250	6000	16	13132	10000	17405	16	14144	10000	18050
	83	21	8	1785	350	5129	20	16495	7750	22100	20	17209	7750	23906
	84	20	10	5285	1528	9870	17	17462	6020	21560	17	20571	7400	30600
	85	23	15	3668	695	8179	21	16291	6000	22000	21	18911	6250	28263
M	2-year Program													
	82	130	NA	NA	NA	NA	NA	NA	NA	NA	113	11945	7500	18212
	83	137	40	5745	693	11475	105	12830	5000	17810	105	15019	7500	22300
	84	152	32	4806	611	10425	94	13424	9500	18000	94	15060	9500	23515
	85	130	39	6524	900	13917	98	13988	5000	20000	98	16584	5000	24263

Summary totals:

82	301	3596	776	11884	779	13238
85	418	5115	750	16356	755	19080

NOTE: "Total Loan" is the sum of a graduate's loans prior to study at Yale plus losses taken while in Yale. All of the above loan figures are the principal borrowed, which does not include the interest which accrues on some kinds of loans (e.g. ALAS, YSL) while a student is in school.

(a) Graduating classes marked with an "a" are for a sample of the class. All others include the total group of borrowers.

Table II

Loan Debt Burdens: Estimated First-year Income, Cumulative Loans & Projected Payments for Graduates of Yale Professional Schools, Class of 1985

SCHOOL	GRADS	BORROWERS	STARTING INCOME	AVERAGE LOAN	ANNUAL PAYMENT	PAYMENT AS %INC	RANK IN DEFAULT
D	54	47	$11,184	$14,855	$2,262	20.2%	1
I	103	88	26,841	33,055	5,245	19.5%	10
B	57	45	14,007	15,905	2,274	16.2%	2
C	139	92	15,570	14,056	2,140	13.7%	9
F	58	36	16,217	14,308	2,179	13.4%	13
G	10	4	13,764	11,955	1,820	13.2%	5
A	46	29	18,321	15,891	2,397	13.1%	4
L	23	21	22,626	18,911	2,926	12.9%	10
J	85	48	16,162	14,133	2,049	12.7%	3
E	90	57	23,355	18,740	2,904	12.4%	10
K	71	55	21,473	17,486	2,475	11.5%	8
H	187	135	40,000	22,480	3,572	8.9%	6
M	130	98	38,650	16,584	2,630	6.8%	7

NOTE: "Average Loan" is the sum of an average graduate's loans prior to study at Yale plus loans undertaken here. All of the above loan figures are the Principal borrowed and do not include the interest which accrues on some kinds of loans (e.g., ALAS or YSL) while the student is in school. Annual repayments for mean loans are calculated using fixed ten-year Payment Periods with GSL rates of 9% on the assumption that all began their study between 1981-82 and 1983-84. For each school, repayments for mean loan amounts greater than the maximum GSL ($5000 per year) were calculated according to the order of loan types for that school (e.g., 5% for NDSL, 12% for ALAS and YSL, etc.)

Paul G. Barberini
Director, Student Financial Assistance
Arizona State University

No loan program can survive unless the loans are repaid. Lending institutions have used collateral as a means to ensure this, but educational loans are not based on collateral nor can they be and still accomplish their purpose. Educational loan programs must, therefore, be based on an informed student borrower, a regulated system of borrowing and borrowing limits, and a workable repayment program. Although all three ingredients are necessary, this paper will focus on the informed (educated) borrower or what a student needs to know.

Students are as diverse in knowledge, values, and motivation as society itself. How can a loan counseling program meet such a diverse clientele? Simplify, that program must be targeted at the least sophisticated, the least knowledgeable, and the borrowed from the outset who is least likely to repay. Students must be offered a complete picture or set of information. Certainly a repayment schedule by itself is insufficient to foster repayment. Beyond repayment itself, a loan counseling program must prevent the severe hardship for those who repay and the debt itself should not control the career choice or the life style of the borrower who does repay the loan.

The following are the 10 points identified as what a student borrower needs to know. Although some of these points may seem elementary, they are not yet universal for our students. Although some of these points are not needed by all students, we will not know which students need each item. Although some of these items are difficult to do (and we have not agreed on who <u>should</u> do them) the fate of the loan programs and the individual lives of the borrower rests with their accomplishment.

1. <u>What is the student's budget?</u> Students do not universally know what their tuition, fees, books, supplies, room, board or personal expenses are for an educational period. Although there will be wide ranges of expenses, students need to know what these are likely to be for a year and for the number of years they will be in school.

2. <u>What can the student and/or the family contribute?</u> Although we do an intensive job on what a family or student <u>should</u> contribute, how many students actually have those dollars? If our systems rely so heavily on the calculated amounts, then students and families must be informed "early" as to what these amounts are. How can a parent with a taxable income of $40,000 contribute $5,430 annually to a son or daughter's education when the parent has encumbered most of its discretionary dollars?

3. What is the student's financial need? Although the arithmetic is simple to subtract item 2 from item 1 above, without realistic, timely, and available data, financial need which must be the basis of student borrowing will not be known.

4. What is the student aid (gift aid)? It seems strange that students who receive no need scholarships will know the dollar value six or ten months until they reach campus, but a grant recipient will not know until a month or two before arriving at a campus and too often not until he or she has arrived.

5. What is a student's remaining need? This term refers to the "gross need" less gift aid. Remaining need is the amount that a student must provide through "self help". Depending on a particular set of institutional practices, this may be an unidentified amount if the loan is packaged or awarded. I submit that loan counseling is not needed if the school has determined the loan amount.

6. What are the alternatives for the students? If we can ensure that a student (and parents knows and understands "remaining need" then the information about and the alternatives are essential to minimizing the loan. These alternatives include, but are not limited to, other fund sources, reducing expenses, reducing education costs, employment or greater employment, and borrowing. I purposely listed borrowing last because it is likely to be the only or first alternative known or made.

7. What are the implications of any one or more alternatives? Students, particularly young students, need help not only in understanding the alternatives, but the implications. Can we expect an 18 year old to know the implications of working two jobs or one for 25 hours a week, or living with four roommates, or borrowing $2,500 a year or maybe $8,000 a year?

It may appear that up to this point I have not been addressing loan counseling or debt management; however, these first seven points are the basis of student borrowing. If they are not accomplished, then I suggest that the next three items will have little meaning or effect on the loan program or the individual student.

8. If a student chooses to borrow, then how much? If the answer is either whatever the need is or what the program limits are, then we must be prepared for high default rates and loan repayer with debt controlled lives or life-styles. A system must be developed and employed

universally that will help the student estimate what he or she will be able to repay based on a set of family and career expectations. This must be based on a total indebtedness not just one year's borrowing.

9. How and when to borrow? If we have succeeded at any part of the student loan process then I suggest this is the item. Although colleges and universities struggle with large seasonal volumes of loan applications, we have simplified the student's acquisition of the loan to his signature and the names of three references! Typically, a student sees no "lender" official and may have his loan processed in a couple of weeks and very likely in the near future a few days.

10. When, how and where to repay the loan? This is critical information to the borrower and it needs to be given at the point the loan is made, at the point the student leaves school, and at the point repayment is scheduled to begin. This is likely to become a more complicated and difficult task. Loans are now being sold to secondary markets with' greater frequency. A lender may in some cases sell a single student's notes to different purchasers. Without consolidation students repay to different and sometimes many note holders. The current number of loan programs and different types of loans frequently causes the ex-student borrower to give up because of the complexity. This item will become worse unless the programs are consolidated either up front through reduction of the types of programs or at the tail end through refinancing (consolidation).

At the end of this paper are three documents which I suggest are essential to this process.

First, is some form of a document which describes or gives the best estimates to a student's total educational cost -- a budget. This document must also provide the student and family with the "expected" or calculated contribution toward education. Lastly, this document must state what financial need is and the meaning of that need. The current practice of doing the above items and then permitting students to borrow beyond need or even without need destroys the credibility of our system and need analysis. It should be evident that an explanation of what these items are, how they are calculated, and how they may be changed is necessary for most students.

Second, is some form of a document that provides all aid awarded and all aid available. Students need to see all aid types in order to deal effectively with employment and/or loans.

Third, is a document which describes to a student the implications of borrowing. Basically, a student must be told what he or she already owes and what the after school repayment will be. A student must be told what this current loan will add to an after graduation repayment. Lastly, a student needs to see a projection of what the total indebtedness is likely to be and what those repayments will be. Although this document makes an attempt at item 6 and 7 described above, it is insufficient to do the job. Face to face advisement is necessary particularly for the first time borrower if the alternatives and implications are to be understood.

The above 10 informational items and the sample forms are intended to focus the question of what students need and to not provide final answers. We must "get on" with the business of reaching agreement about <u>what</u> is needed by the student, and, <u>who</u> should provide various items, <u>and how</u> the information should be delivered.

ARIZONA STATE
UNIVERSITY — TEMPE, ARIZONA 85287

STUDENT FINANCIAL ASSISTANCE OFFICE
(602) 965-3355

DATE: MARCH 28, 1985
A.S.U. ID#
DETERMINATION OF ELIGIBILITY: ORIGINAL (X)
REVISION ( )

THIS LETTER IS IN RESPONSE TO YOUR FINANCIAL AID APPLICATION

YUMA , AZ 85364

FOR: ACADEMIC YEAR 1985/86. ANTICIPATED CREDIT HOURS 15 FALL/15 SPRING.
ANTICIPATED HOUSING STATUS: OFF CAMPUS

COST OF EDUCATION:

EDUCATIONAL EXPENSES		
REGISTRATION AND TUITION - RESIDENT	990	
BOOKS - $15 PER CREDIT HOUR	450	
SPECIAL FEES	0	
OTHER	0	
LIVING EXPENSES		
ROOM	1,750	
BOARD	1,750	
PERSONAL	1,800	
OTHER	0	
TOTAL		6,740

EXPECTED CONTRIBUTION:

PARENT CONTRIBUTION	0	
SPOUSE CONTRIBUTION	0	
YOUR CONTRIBUTION FROM INCOME	1,000	
YOUR CONTRIBUTION FROM ASSETS	0	
YOUR NON-TAXABLE INCOME	0	
OTHER	0	
TOTAL		1,000

GROSS FINANCIAL NEED (COST OF EDUCATION LESS CONTRIBUTION) 5,740

THIS IS NOT AN AWARD NOTICE. YOU WILL RECEIVE A FINANCIAL AID NOTIFICATION INDICATING YOUR AWARDS.

"READ THE ACCOMPANYING INFORMATION CAREFULLY"

IN ORDER TO RECEIVE A FINANCIAL AID NOTIFICATION, YOU MUST SUBMIT THE FOLLOWING:
--PARENT 1040
--STUDENT 1040

ARIZONA STATE
UNIVERSITY TEMPE, ARIZONA 85287

STUDENT FINANCIAL ASSISTANCE OFFICE
(602) 965-3355

DATE: APRIL 21, 1985
A.S.U. ID#

FINANCIAL AID NOTIFICATION: ORIGINAL (X)
REVISION ( )

YUMA , AZ 85364

FOR: ACADEMIC YEAR 1985/86. ANTICIPATED CREDIT HOURS 15 FALL/15 SPRING.
ANTICIPATED HOUSING STATUS: OFF CAMPUS/WITHOUT A MEAL TICKET.

GROSS FINANCIAL NEED AS DESCRIBED IN YOUR DETERMINATION OF ELIGIBILITY LETTER: 5,740

AWARD(S):

PROGRAM	FALL	SPRING	SUMMER	TOTAL	STATUS
PELL GRANT--OFF CAMPUS HOUSING	738	737		1,475	**ESTIMATED
UNIVERSITY GRANT	210	210		420	**ESTIMATED
STATE STUDENT INCENTIVE GRANT (REMAINING NEED = 3,425)	210	210		420	**ESTIMATED
RECOMMENDED GSL				2,500	***RECOMMENDED
EMPLOYMENT ELIGIBILITY				925	***RECOMMENDED
		TOTAL		5,740	

**ESTIMATED AWARD(S): YOU MUST COMPLETE AND RETURN THE ENCLOSED ACCEPTANCE RESPONSE.

***RECOMMENDED AWARD(S): YOU MUST CONTACT THIS OFFICE TO FULFILL OTHER REQUIREMENTS.

-ALL AWARDS ARE SUBJECT TO REVISION IF FEDERAL OR STATE LEGISLATION OR APPROPRIATIONS ARE CHANGED.

-YOU MUST MAINTAIN SATISFACTORY ACADEMIC PROGRESS OR YOUR FINANCIAL AID WILL BE CANCELLED.

"READ THE ACCOMPANYING INFORMATION CAREFULLY"

SAMPLE
(in Development)

ARIZONA STATE UNIVERSITY
TEMPE, ARIZONA 85287

Student Name
Student's Address
City, State, Zip

SS#_____
Anticipated Graduation Date 5/87

Dear _____:

In an effort to assist you in making a decision about further borrowing from the Educational Loan Programs, we are providing you with information about the loans you have borrowed to date. This data is based on our records of loans you have received while attending Arizona State University and any other loans you have received while attending any other institution if you provided ASU with this information. Included in this information is the amount and type of loan you have borrowed, the name of the lender(s), the interest rate(s), and the monthly payment you must make once you graduate or leave school.

Lender	Interest Rate	Type	Unpaid Balance	Monthly Payment	# of Monthly Payments
USAF	8%	GSL	7,500	$ 91.00	120
ASU	5%	NDSL	3,000	31.92	120

Based upon this information, we have estimated that you have borrowed an average of $3500 per year. If you continue to borrow that amount for each year until the anticipated date of graduation, you will owe $ 14,000 . Based on this estimate, you can anticipate the repayment to be as follows:

Lender	Interest Rate	Type	Unpaid Balance	Monthly Payment	# of Monthly Payments
USAF	8%	GSL	10,000	$121.33	120
ASU	5%	NDSL	4,000	42.56	120

If your estimated monthly payment seems unmanageable based on the salary you expect to earn after graduation, it is recommended that you consider alternatives to borrowing. We would encourage you to come to the Student Financial Assistance Office to be certain that you have explored all possible means of financing your education.

Even if the repayment amount seems reasonable, before borrowing again, be certain that you have investigated and exhausted all other types of funding. Remember, you must repay this loan, so borrow only what is absolutely necessary.

If you have any questions concerning your loan amounts, repayments, or alternatives to borrowing, please contact the Student Financial Assistance Office.

Roberta S. Popik
Associate Director, Financial Aid
Northwestern University

An educational institution must systematically and prudently develop a long-range model to plan for and to manage the educational debt of its students. The model must be responsive to individual student circumstances during the period of enrollment and also allow the realization of a quality life after graduation -- one that permits choices regarding career, family, and other important life decisions.

An institutional debt management model must acknowledge the current and future goals of the institution. It should maximize the effective use of financial aid resources to fund needy students. In addition, it should minimize institutional risk. This can be achieved by developing programs that increase the likelihood that loan funds will be repaid, thereby protecting the ability of the institution to lend in future years. Institutional risk can also be minimized by developing debt models that permit students the quality life that was mentioned earlier. In this way, the institution will be more likely to have satisfied alumni--ones who will provide reasonable levels of giving and who will characterize the institution in a positive way.

A model of debt management requires both coordination and commitment from an institution. Since debt management encompasses many departments (e.g., financial aid, loans, finance, placement), coordinated activity is imperative. Similarly, commitment to a long-term activity requiring energy, time and financial support is necessary if the model is to be successfully initiated and maintained.

The purpose of this paper is to describe a three-part approach to an institutional model of debt management. Its components are research, differential awarding policies, and student counseling.

RESEARCH. Good, solid research and a strong data base are the foundation of an institutional debt management model. One theme common to many papers presented at this colloquium is the need for research, at both the national and institutional levels. However, as remarked by Horch yesterday, institutional research, more than national research, will impact Washington policy makers.

We can ask the question: What unique perspective can an institution provide? An educational institution is unique because it can bring the student to the policy makers through the development of borrower profiles that show the real-world impact of proposed policy alternatives. Three general types of research should be conducted by institutions and used both to direct institutional policy and respond to national policy initiatives.

Monitor the borrowing patterns of students. The descriptive information currently collected as part of the reporting requirements to state and federal agencies is inadequate for a good debt management model. Although it is useful to know the numbers of students borrowing from a particular loan program, or the total volume of loans for a particular program, such data do not fully profile borrowers.

A borrower profile will show average loans over all borrowers, and over all programs from which students have borrowed. This unduplicated loan picture will provide a measure of the degree of multiple loan borrowing. One then can determine the relative proportion of different loan sources (e.g., NDSL, GSL, ALAS) to the total debt and calculate the projected annual repayments appropriate to the profile. This permits the systematic examination of the differential effects of manipulations to loan program and aid policy variables.

Determine the differential debt capacity of students by program of study. There appears to be general consensus that the relationship between debt repayments and income is the relevant measure for determining manageable debt. Therefore, an institution must research the earnings potential of its students and recognize how graduates of various programs within the institution may differ in this capacity.

The income profiles can be used to estimate the students' manageable levels of debt, by program of study. This can be achieved by interpolating the income data into manageable debt models developed by others (e.g., Horch, 1984). Alternatively, a simulation model, with parameters specific to the institution's own student profile, can be developed.

Monitor patterns of attrition and profile the characteristics of institutional repayers and defaulters. An understanding of borrower behavior can guide an institution's policies toward awarding loans and toward collections. As an example, there has been discussion at this colloquium (e.g., Marchese) of differential grant/loan awarding policies for lowerclassmen as compared to upperclassmen. The purpose of such policies would be to protect students who leave school early in their educations, have a reduced earnings capacity and, therefore, have an increased probability of default because of difficulty managing debt repayments. Differential awarding policies are favorable to the borrower and reasonable to the institution under certain conditions. However, before an institution adopts such a policy, it must understand patterns of student behavior. The institution should ask, first, whether attrition among financial aid recipients is a significant occurrence and, second, whether such students have an increased likelihood of default. Schools with low to

moderate attrition, and a good pattern of borrower repayment, may incur less institutional risk by allowing students to borrow at normal levels during the early years, rather than to receive increased grants. In this way, some of the debt would be repaid to the institution, whereas all funds would be forfeited if an increased grant policy were used.

DIFFERENTIAL AWARDING POLICIES -- the research data will identify students and programs of study with potential debt problems. Administrators then can develop strategies for lessening the effects of excessive debt. Examples of four types of awarding policies that target problem students will be described. They are: (1) a debt ceiling model, (2) differential loan packaging, (3) income contingent loan repayment/debt foregiveness, and (4) the proper administration of loan awarding.

Debt Ceiling Model. Grant funds are awarded to students in programs of study with low earnings potential relative to borrowing levels. Conceptualized in its most extreme form, the institution places a ceiling on cumulative debt and awards grants to meet full need above that amount. As an example, assuming a four-year program with a manageable debt level of $25,000, the annual pro rata share of debt is $6,250. The first $6,250 of each student's annual need is met by loan assistance; remaining need is met in full by grant aid.

There are two advantages to a debt ceiling model. First, it is attractive to students, providing security and confirmation of institutional commitment. Second, it increases the likelihood of debt repayment, thus minimizing risk to the institution. A disadvantage of such a model is that it does not recognize the differential debt capacity of individual students within a program (e.g., students entering public law may have a lower debt capacity than those entering private practice).

Another problem associated with a debt ceiling model is that the institution commits increasingly large amounts of grant resources. By holding student debt constant, the school absorbs annual net increases in cost. One way to adjust for this problem is to share annual increases in net cost with the student. The example used earlier would be adjusted in the following way: assuming an annual net increase in cost of $1,000, $500 is offered in loan aid, bringing the student's second-year debt to $6,750; the remaining $500 is offered in grant assistance.

Some institutions do not have sufficient growth capacity in the grant base to adjust to spiralling grant needs, even with an adjusted debt ceiling model. Other institutions have limited grant resources and are unable to maintain students at manageable

debt levels. In a less costly debt ceiling model, grants are awarded in amounts that reduce each student's total debt to the same level. This level may or may not be manageable and is determined by the amount of grants available and the distribution of debt among borrowers. As an example, assume 200,000 in grants are available for discretionary use, the manageable level of debt is $25,000 and the range of cumulative student debt is $15,000 to $37,500. The distribution of student debt is such that the $200,000 could reduce each student's debt to a level of $27,000. The student with a cumulative debt of $37,500 receives a grant of $10,500; the student with $28,000 of debt receives a $1,000 grant; any student with less than $27,000 of debt does not receive a grant.

Some students do not have sufficient need in the academic year of the grant award to receive the full grant to which they are entitled. In such cases, consideration should be given to using grant funds to prepay loans awarded in prior years. Institutions also should examine the timing of the grant awards. In Medical Schools, for instance, it may be most effective to award debt ceiling grants in the junior year of study. At that time students are making decisions about residency programs; career choice may be influenced by cumulative indebtedness.

Differential Loan Packaging. Low-cost loans (e.g., NDSL) are awarded to students with excessive debt. This approach can be used at two levels in the institution. First, when the coordinating person allocates loans among educational programs, the relative strength or weakness of each program s students in the area of manageable debt should be one determining factor. Programs with a stronger student debt profile can afford higher-cost loans; those with weaker student profiles should be allocated greater amounts of low-cost loans. Second, once loan allocations are made, program administrators should target the low-cost loans to high-debt students. Rank-order lists of students according to projected cumulative debt can be maintained for this purpose.

Another type of differential loan packaging model is being explored by some institutions that award high-cost loans to meet need (e.g., ALAS, HEAL). Institutional grant resources are used to pay the in-school interest for students projected to exceed manageable debt levels. In this way, the accrual and compounding of interest does not aggravate the debt problem.

Income Contingent Loan Repayment/Debt Foregiveness. One problem with the two awarding policies already discussed is that they do not distinguish among students with differential earnings capacities. For example, there may be large differences in earnings potential for students interested in public and private law, or the editorial and advertising fields in journalism. One can argue that the determination of who has borrowed in excess of manageable debt levels only should be made after graduation, when actual income and family circumstances can be confirmed.

The concept of income contingent lending has been discussed for many years. Johnstone (1972) examined key issues associated with such lending and described prototype institutional models. Although many such models did not flourish in the educational environment of the 1970's, such alternatives may become viable options for managing the higher educational debts of the 1980's.

At Northwestern University Law School a simplified income contingent/debt foregiveness program has been developed for students who enter public-interest law. After graduation, students receive zero-interest loans to assist with debt repayments in excess of 10 percent of annual gross income. These loans must be repaid within 10 years. Partial or complete cancellation occurs through a foregiveness provision after extended periods of public-interest employment. Since the institution directly lends funds to the student, administrative burdens are minimized. The student maintains personal contact with each lender; the school plays neither a coordinating nor intermediary function.

Proper Administration of Loan Awarding. Although not an example of a differential awarding policy, the proper administration of the loan awarding process is critical if the institution is to manage student debt. There are at least two procedures, in addition to those mandated by federal regulations, that strengthen a loan application: extended reference sections and use of a cosigner. It must be noted that these may not be appropriate for all types of loans.

The number of references on a loan application should number as many as six, with the relationship varying between family and personal acquaintances. No duplicate addresses among the references should be permitted. An extended reference section, updated annually, increases the likelihood of maintaining contact with the student during repayment.

Some institutions and lenders in the Guaranteed Student Loan and PLUS/ALAS Programs require cosigners on loan applications. In addition to strengthening the legal obligation on a loan, a cosigner strengthens the sense of moral obligation toward the loan. Students may be reluctant to miss a payment because of embarrassment if payments revert to a close relation. Relatives and friends consider cosigning to be serious business and carefully examine potential personal liabilities before assuming this responsibility.

An interesting dilemma occurs when requiring cosigners on student loans--the dilemma of whether or not the cosigner should be creditworthy. In the commercial lending environment cosigners are usually required on high-risk applications; the cosigner's financial strength makes the application less of a risk to the

lender. In the financial aid environment, however, loans are awarded to needy students whose family financial circumstances may not be strong. If loan approval were contingent on creditworthy relatives or friends, many need-based loans would be denied. Thus, an educational institution must accept the increased sense of moral obligation that may occur with a cosigner, but must not anticipate that all applications will be strengthened financially.

One option for evaluating the creditworthiness of a loan application is to perform a dual credit review, where both the cosigner's financial strength and the student's manageable debt profile are reviewed. If at least one of these dimensions is strong, then the loan application is approved. If the student's application fails on both measures, then alternative financing options (e.g., grants, work) are explored.

STUDENT COUNSELING. The discussion has focussed on manageable debt as a quantitative concept, one that can be measured by evaluating income and repayment obligations. Manageable debt also can be measured qualitatively. It requires the student to make a personal decision regarding what will be manageable, taking into account career goals, schools of preference and expectations regarding future lifestyle. This involves self-analysis of personal goals as well as fiscal analysis of current and future financial obligations.

The purpose of counseling is to enable the student to make an informed financial judgment and to recognize that personal choices are inherent in the loan decision-making process. Loans involve a long- term commitment, with the assumption of both legal and moral obligations. Counseling must instill an appropriate attitude toward these obligations and must also bring the student to an understanding that adjustment in lifestyle may be required. Such adjustments may occur during the school period, in order to minimize debt, or during the post-school period when a portion of earnings are committed to debt repayment.

The timeliness of counseling is a critical variable. If students are to make informed judgments, then counseling must begin before the first loan is offered. Counseling, therefore, requires involvement by parents, high school counselors, community leaders, college admission officers and financial aid officers. An institutional debt management model allows the continuation of learning and the reinforcement of personal objectives and financial planning principles.

Various types of information may be included in a debt counseling program. Training in personal budgeting and record-keeping are important. Standard entrance and exit interviews should be provided, including information on interest rates, deferment options, spouse/cosigner obligations, and estimated monthly and annual repayment amounts. Students also

should be counseled on how to properly manage debt during repayment; i.e., the importance of knowing their lenders, maintaining current address files, properly applying for deferments and forebearance options.

Debt counseling should include financial planning in its broadest sense, incorporating concepts related to banking, budgeting, credit and other financial principles. One way to train students in these principles is to provide financial courses in the curriculum. At Northwestern University Dental School, for example, an elective class on financial planning is offered for credit. Its purpose is to increase financial awareness by teaching basic principles of financial responsibility and planning. A series of nine lectures includes the following topics: the psychology of finances, budgeting, credit, the economics of borrowing, insurance, financial statements and business plans. This type of class is readily adapted to a seminar series and, in part, was modeled after the seminar protocol developed for the Georgetown University School of Dentistry by Riggs National Bank (NASFAA Monograph, 1984).

Conclusion. An institutional debt management model has several components including research, differential awarding policies and student counseling. Each component is effective by itself or may be included as part of a fully coordinated activity. Institutional commitment to the concept of debt management is essential, particularly in the current environment where loans are increasingly relied upon to finance education.

References

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National Association of Student Financial Aid Administrators. Stages in the Development of a Financial Counseling and Debt Management Model. Washington, D.C.: NASFAA Monograph Series, Number V, July, 1984.

Sylvia Simmons
Senior Vice President,
Field Services Division
Massachusetts Higher Education Assistance Corporation

I have been asked to discuss with you today, the Massachusetts model for loan counseling, a model designed by a task force sponsored by MHEAC and comprised of representatives from postsecondary institutions, lending institutions, a College Board representative, a high school guidance counselor and MHEAC staff.

Why was the task force formed in the fall of 1983? At a MHEAC seminar involving lenders and schools in the spring of that year, a discussion regarding who was responsible for counseling borrowers about their rights, responsibilities and their obligation to repay turned into a heated debate and resulted in no answer to what appeared to be a basic question. Concerned that there appeared to be no systematic counseling for borrowers by schools or lenders, MHEAC hired a graduate intern during the summer to research the issues. The formation of the task force was the result of her recommendation.

At the outset, the task force agreed that the question of who should counsel should not be the issue. We agreed that the lenders, schools and guarantee agency, should share the responsibility. We agreed that the task force should review the literature, studies and current models relating to loan counseling, debt management and default, develop debt management materials for lenders, undergraduate, graduate and professional schools, high schools and community agencies and create a comprehensive loan counseling model if necessary or appropriate.

We immersed ourselves in loan counseling, debt management and default. We spent several months reading and discussing the boxes and boxes of literature that had been gathered by the summer intern.

We debated the impact of excessive debt on individuals and society; debated, whether borrowing affects a graduste's choice regarding career, marriage, children, buying a house or car; debated, if borrowers entering low paying professions can pay or how much discretionary income they can pay towards their debt; debated, if alumni burdened with debt are willing to contribute to their alma mater; debated, whether graduates are postponing marriage or soliciting marriage partners based on indebtedness; debated, whether extensive debt burden is passed on to the consumer of professional services. We knew the general concern and debated whether students are assuming too much debt which may detrimentally affect the national economy as well as the economic viability of the student after graduation. We dabated and discussed all of these issues.

Studies and reports had given us some answers to these questions, but not many. We were concerned about the questions raised and the answers, but felt we could make more of a contribution by informing students as individuals about the ABC's of borrowing, the decisions they must make as a borrower, and what it will mean to them after they leave school. We had a strong sense that despite increasing debt burdens and increasing defaults that loan counseling was not being provided prior to or after assuming a loan, that students assumed debt without understanding the impact of repayment, default or other aspects of the lending process, that lending institutions and educational institutions both experienced difficulty trying to provide loan counseling and that information regarding loan counseling was sparce and few comprehensive models existed.

So we set out to develop a model, (an informational and educational model) a model that would provide accurate and timely information about credit financing and responsibilities that go along with borrowing for higher education.

The following statements which occurred again and again throughout our reading guided our model:

> willingness to pay appears more important than the ability to repay. The successful loan repayer is one who fully understands what his/her financial obligations are and is <u>willing</u> to accept whatever lifestyle adjustment changes the loan obligation may impose.
>
> loan counseling must include how debt is related to future earnings and lifestyle choices. Borrowers must make informed decisions about borrowing and what portion of future earnings will be needed to repay educational loans.
>
> loan counseling must include alternatives to borrowing.
>
> how much is too much is a difficult question. The task force concluded that how much to borrow is a personal decision; however, Kurt Kendis indicates any debt which comes as a surprise at the time required repayment begins is too much debt.

The task force felt that attitude was one of the most important ingredients in understanding loan obligations, that attitude was shaped prior to borrowing and the task force concluded that credit education must take place at multiple times, prior to and during the student's borrowing and repayment periods. Lenders, schools and guarantee agencies must be involved but each party would stress different parts of the model at various times.

As the recurring statements, mentioned before, guided the model - six themes gave it shape:

Credit financing
Alternatives to borrowing
How much to borrow
The application process
Repayment
Consequences of default

The loan model begins early. We want to reach junior high school students by presenting a basic understanding of what it means to use credit to buy things. At the high school level we want students to know that higher education is possible for anyone and loans are available to help pay for school but loans are only one way to finance higher education. We want students to understand both the consequences of borrowing and the alternatives to borrowing. We want students who are already in higher education to understand the terms of each loan, to make the most informed choice possible about how much to borrow, to understand that planning for repayment begins when a student first applies for a loan. We want students about to leave higher education to realize they should approximate their earnings throughout the repayment period, their expenditures throughout the same period. We also want to be of service to those borrowers who have already left higher education and are bewildered by the loan repayment process.

To develop the model we identified activities, materials, publications and the training needed to provide information about each theme I mentioned before to each target group.

I will review the model with you -- but I must emphasize that this is the beginning of the task force's efforts. We must continue to review and evaluate the materials and approach. We must adapt the materials for the non-traditional student, take into account the sub-cultural aspects of borrowing, realize that the traditional borrower (one who comes from a family that understands the advantages and disadvantages of credit) is different from the non-traditional borrower whose family history indicates that he/she fears and shies away from credit. We should also look at the implications of the feminization of borrowing (as J. Boyd's study points out). This is a long term committment for the members of the task force. Some say loan counseling will not help, will not reduce default, will not assist those who simply cant pay. We know that graduated repayments, longer repayment terms will, but I do not believe we have not had enough experience with counseling to simply say it won't work. Financial debt mangement programs will not prevent the reality of increasing debt burden, but they will provide students with necessary skills to budget their money and meet their loan obligations.

So even for those who are willingn and able to repay, and who do repay, we have an obligation to make sure that they are fully informed, that they understand the choices available to them, that they realize the possible impact on future earnings and lifestyles, so that educational credit will be a positive factor in their lives, not a negative one.

The Model

The model has about 25 pages of backup material. Each target group under each theme has a list of activities, the objectives to be achieved, the messages to be emphasized and the tools for measuring the effectiveness of each activity.

Our furst target group -- borrowers in repayment. We conducted a repayment hotline during the month of March. Newspaper, redio, and television ads encouraged borrowers who had a repayment problem to call an "800" number to seek advice. A poster which appeared in the cars of our public transportation system generated most of the phone calls. What did callers want to know? Besides requests for general information, the most frequently asked questions were about loan consolidation, default problems, deferment issues and financial hardship.

Soon after the hotline, we developed the loan repayment booklet "Everything you've always wanted to know about repaying your GSL" for borrowers in repayment. The booklet distributed to borrowers by lenders and schools contains sections on: managing debt; establishing credit; a friend called Grace; Nellie who bought my loan?; when things get tough (forbearance); forgive me please -- I'm in the army now. For the same target group a bank stuffer will be developed within the next few months. The stuffer will be used by lenders when acocunts are 60 days past due, reinforcing the consequences of default and offering alternatives if the borrower is unable to pay.

In the spring of this year, we conducted a logo art contest for high school students in Massachusetts. We asked higher school students to join us in our campaign to inform the public about students by designing a logo or symbol which would convey information about loan counseling and repayment obligations. In asking teenagers to participate in this effort we were hoping to educate potential borrowers about the realities of student loan debt. The Massachusetts Cooperative Bankers Association donated $500.00 for the winning entry and the governor of Massachusetts presented the winner with a citation.

The citation reads:

> Whereas the governor recognizes that education loan counseling the student debt management is an important concern in the commonwealth, whereas the loan counseling task force at Massachusetts Higher Education Assistance

Corporation is addressing this issue by assisting lenders, schools and students in Massachusetts, whereas this task force was greatly aided by a statewide high school art contest to design a prize winning logo, therefore Todd Croteau, the designer of the logo and the winner of the first place award, receives special recognition for his artistic contribution to education loan awareness.

Michael Dukakis
Governor
Commonwealth of
Massachusetts

The logo will be used on letterhead, stationary, posters, t-shirts and other promotional material for the task force.

In the final phase of development -- entrance and exit interview materials for schools and lenders-- we have not decided on the format, but it will probably be a booklet with pockets so that schools and lenders can insert their own materials. Topics include: the choice to invest in yourself; where to start?; an educational budget; financing your education prior to borrowing; understanding borrowing; why a student loan; planning for repayment; consequences of late payments and how to avoid default.The task force believes that the entrance interview is as important if not more important than the exit interview.

Within the next few weeks we hope to complete a pamphlet, "How to be a Wise Borrower", for speakers at financial aid nights. The themes are:

> Investigate all types of aid; contemplate alternatives to borrowing; evaluate financial aid package; calculate what a loan will mean to you after you leave school; dedicate, commit yourself to repayment.

Still in development by the sibcommittees: a teacher's lesson kit for use in the middle schools on the wise use of credit; a poster series for all target groups; an exhibit for use in malls and college fairs; a pamphlet for high school students and college students on how to use credit; a workbook entitled, "How much can I afford to borrow"; a slide show on the application process from origination through repayment; and finally, an audio-visual presentation for use with all target groups. In addition to the posters, pamphlets, brochures and audio-visual presentation, t-shirts, bags, pens, etc. will reinforce the message of the task force.

Media releases and press releases will continue to focus on loans as an available resource to finance higher education and the obligation to repay. Paula Lyons, the consumer reporter for Channel 5 in Boston will focus on the task force, interviewing students and the chairman of the task force withing the next few weeks.

As I stated before, the task force has been at work for a long time. For all the members, it will continue to be a long term committment.

APPENDIX A
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